

KENTON CITY SCHOOL DISTRICT

HARDIN COUNTY

Audit Report

For the Year Ended June 30, 2018



OHIO AUDITOR OF STATE KEITH FABER



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, 2017 through June 30, 2018. 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 cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

January 31, 2019

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**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY
AUDIT REPORT
For the Year Ending June 30, 2018**

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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, 2018, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective 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, 2018, 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 other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2018, the District adopted new guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards (Schedule) is presented for purposes 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.

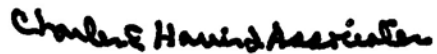
The Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the District's basic financial statements. The management's discussion and analysis which is the responsibility of management, is presented for purposes 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 16, 2018, 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 solely 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 the effectiveness of the District's 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 16, 2018

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(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, 2018, 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 2018 are as follows:

- The total net cash position of the District decreased \$890,366 or 6.77% from fiscal year 2017.
- General cash receipts accounted for \$18,950,486 or 77.13% of total governmental activities cash receipts. Program specific cash receipts accounted for \$5,618,407 or 22.87% of total governmental activities cash receipts.
- The District had \$25,459,259 in cash disbursements related to governmental activities; \$5,618,407 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts (primarily taxes) of \$18,950,486 were not 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 \$21,013,407 in fiscal year 2018. The cash disbursements of the general fund totaled \$21,044,311 in fiscal year 2018. The general fund's fund cash balance decreased \$30,904 from a balance of \$7,672,368 to \$7,641,464.
- The permanent improvement fund had a balance of \$2,923,141 at the end of fiscal year 2018.

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 2018?" 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, 2018
(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 budgetary 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, 2018
(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 21-52 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, 2018 and 2017.

	Net Position	
	Governmental Activities	Governmental Activities
	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Equity in pooled cash and cash equivalents	\$ 12,258,707	\$ 13,149,073
Total assets	<u>12,258,707</u>	<u>13,149,073</u>
<u>Net Position</u>		
Restricted	2,444,581	3,322,802
Unrestricted	<u>9,814,126</u>	<u>9,826,271</u>
Total net position	<u>\$ 12,258,707</u>	<u>\$ 13,149,073</u>

The total net position of the District decreased \$890,366, which represents a 6.77% decrease over fiscal year 2017.

The balance of government-wide unrestricted net position of \$9,814,126 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, 2018
(UNAUDITED)

The table below shows the changes in net modified cash position for fiscal year 2018 and 2017.

	Change in Net Position	
	Governmental Activities	Governmental Activities
	<u>2018</u>	<u>2017</u>
Cash Receipts:		
Program cash receipts:		
Charges for services	\$ 2,045,510	\$ 2,031,764
Operating grants, contributions and interest	<u>3,572,897</u>	<u>4,452,509</u>
Total program cash receipts	<u>5,618,407</u>	<u>6,484,273</u>
General cash receipts:		
Property taxes	5,411,647	5,473,250
Income taxes	1,984,482	2,319,889
Unrestricted grants	11,210,351	11,539,197
Investment earnings	109,226	63,439
Sale of capital assets	-	513,820
Miscellaneous	<u>234,780</u>	<u>135,456</u>
Total general cash receipts	<u>18,950,486</u>	<u>20,045,051</u>
Total cash receipts	<u>\$ 24,568,893</u>	<u>\$ 26,529,324</u>

- Continued

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

Change in Net Position (Continued)

	Governmental Activities <u>2018</u>	Governmental Activities <u>2017</u>
Cash Disbursements:		
Instruction:		
Regular	\$ 10,639,947	\$ 10,322,661
Special	4,120,871	3,589,154
Vocational	262,997	291,233
Support services:		
Pupil	1,088,137	1,089,480
Instructional staff	473,413	1,039,478
Board of education	44,269	65,716
Administration	1,896,741	2,000,934
Fiscal	414,055	483,286
Operations and maintenance	1,928,233	1,867,872
Pupil transportation	1,998,805	986,113
Central	5,225	5,225
Operation of non instructional services:		
Other non instructional services	174,614	118,815
Food service operations	1,019,561	1,069,613
Extracurricular activities	611,835	613,293
Facilities acquisition and construction	-	217,192
Debt service:		
Principal retirement	370,000	365,000
Interest and fiscal charges	<u>410,556</u>	<u>416,994</u>
Total cash disbursements	<u>\$ 25,459,259</u>	<u>\$ 24,542,059</u>

Governmental Activities

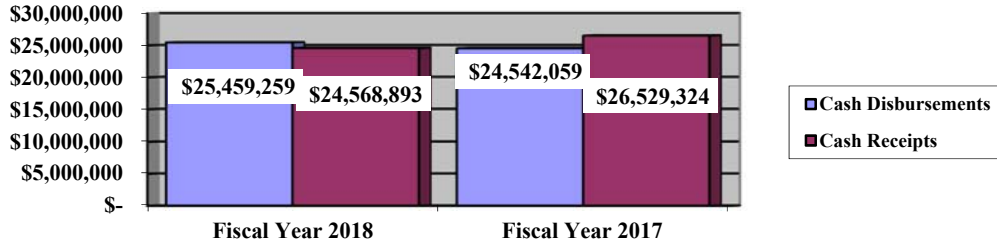
Governmental assets decreased by \$890,366 in 2018 from 2017. Total governmental disbursements of \$25,459,259 were offset by program receipts of \$5,618,407 and general receipts of \$18,950,486. Program receipts supported 22.07% of the total governmental disbursements.

The primary sources of receipts for governmental activities are derived from property taxes, income taxes, and grants and entitlements. These receipt sources represent 75.73% of total governmental receipts. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

Governmental Activities - Total Cash Receipts vs. Total Cash Disbursements



Governmental Activities

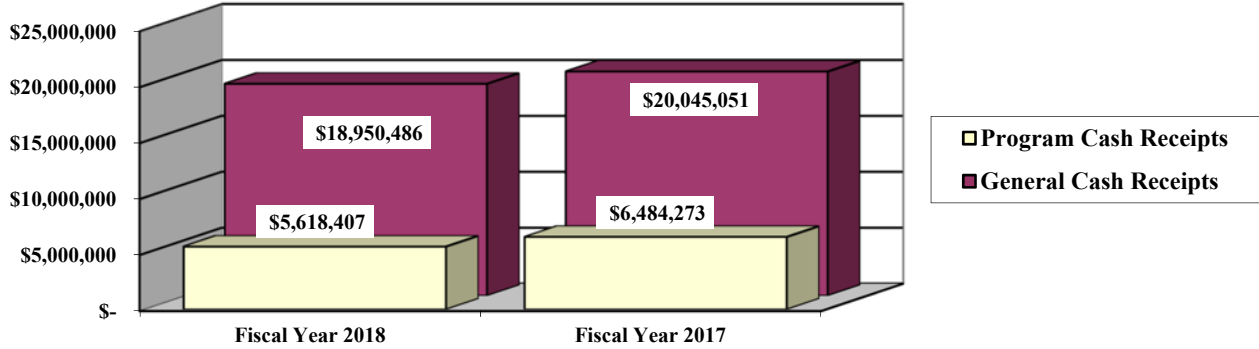
	Total Cost of Services <u>2018</u>	Net Cost of Services <u>2018</u>	Total Cost of Services <u>2017</u>	Net Cost of Services <u>2017</u>
Cash disbursements:				
Instruction:				
Regular	\$ 10,639,947	\$ 9,244,250	\$ 10,322,661	\$ 8,849,415
Special	4,120,871	1,479,410	3,589,154	946,578
Vocational	262,997	201,471	291,233	229,636
Support services:				
Pupil	1,088,137	983,079	1,089,480	971,777
Instructional staff	473,413	391,901	1,039,478	482,355
Board of education	44,269	44,269	65,716	65,716
Administration	1,896,741	1,863,684	2,000,934	1,876,250
Fiscal	414,055	412,183	483,286	483,286
Operations and maintenance	1,928,233	1,890,122	1,867,872	1,808,003
Pupil transportation	1,998,805	1,959,969	986,113	944,063
Central	5,225	5,225	5,225	5,225
Operation of non instructional services:				
Other non instructional services	174,614	170,418	118,815	114,331
Food service operations	1,019,561	26,583	1,069,613	(130,820)
Extracurricular activities	611,835	387,732	613,293	412,785
Facilities acquisition and construction	-	-	217,192	217,192
Debt service:				
Principal retirement	370,000	370,000	365,000	365,000
Interest and fiscal charges	410,556	410,556	416,994	416,994
Total	<u>\$ 25,459,259</u>	<u>\$ 19,840,852</u>	<u>\$ 24,542,059</u>	<u>\$ 18,057,786</u>

The dependence upon general cash receipts for governmental activities is apparent; with 74.43% of cash disbursements supported through taxes and other general cash receipts during 2018.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(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 \$12,258,707, which is \$890,366 lower than last year's total balance of \$13,149,073. The schedule below indicates the fund modified cash balance and the total change in fund modified cash balance as of June 30, 2018 and June 30, 2017, for all major and nonmajor governmental funds.

	<u>Fund Balance June 30, 2018</u>	<u>Fund Balance June 30, 2017</u>	<u>Change</u>
Major funds:			
General	\$ 7,641,464	\$ 7,672,368	\$ (30,904)
Permanent improvement	2,923,141	2,923,141	-
Other nonmajor governmental funds	<u>1,694,102</u>	<u>2,553,564</u>	<u>(859,462)</u>
Total	<u>\$ 12,258,707</u>	<u>\$ 13,149,073</u>	<u>\$ (890,366)</u>

General Fund

The general fund had cash receipts of \$21,013,407 in fiscal year 2018. The cash disbursements of the general fund totaled \$21,044,311 in fiscal year 2018. The general fund's cash balance decreased \$30,904 from a balance of \$7,672,368 to \$7,641,464 primarily due to increases in disbursements and decreases in receipts.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

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

	<u>2018</u> <u>Amount</u>	<u>2017</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Cash Receipts:</u>			
Taxes	\$ 6,604,087	\$ 6,980,642	(5.39) %
Tuition	1,372,056	1,279,703	7.22 %
Earnings on investments	109,161	59,622	83.09 %
Other revenues	492,328	417,226	18.00 %
Intergovernmental	<u>12,435,775</u>	<u>12,704,744</u>	(2.12) %
Total	<u>\$ 21,013,407</u>	<u>\$ 21,441,937</u>	(2.00) %

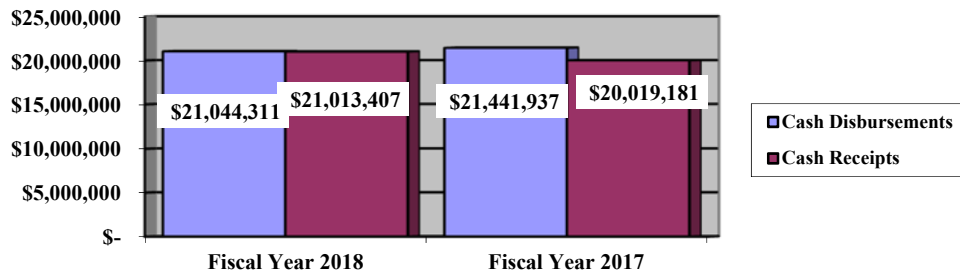
The District's general fund cash receipts decreased \$428,530 or 2.00%. Taxes decreased \$376,555 or 5.39% due to a decrease in income taxes. Intergovernmental receipts decreased \$268,969 or 2.12% due to a decrease in personal property tax reimbursement loss from the State. Tuition increased due an increase in open enrollment.

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

	<u>2018</u> <u>Amount</u>	<u>2017</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Cash Disbursements</u>			
Instruction	\$ 13,821,757	\$ 12,775,354	8.19 %
Support services	6,631,385	6,696,978	(0.98) %
Operation of non instruction	170,387	114,342	49.02 %
Extracurricular	<u>420,782</u>	<u>432,507</u>	(2.71) %
Total	<u>\$ 21,044,311</u>	<u>\$ 20,019,181</u>	5.12 %

The District's general fund cash disbursements increased \$1,025,130 or 5.12%. The largest increase was in the area of instruction which increased \$1,046,403. 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, 2018
(UNAUDITED)

Permanent Improvement Fund

The permanent improvement fund had a balance of \$2,923,141 at the end of fiscal year 2018.

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 \$20,833,242 were decreased from the original budget estimates of \$21,143,566. Actual cash receipts of \$20,953,030 were more than final budget estimates by \$119,788. The final budget basis disbursements were \$23,772,395 were increased \$561,004 from original budget basis disbursements of \$23,211,391 due to higher costs in various functional categories. The actual budgetary basis disbursements of \$21,672,560 were \$2,099,835 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, 2018 and 2017:

	<u>Governmental Activities 2018</u>	<u>Governmental Activities 2017</u>
FY 2012 school facilities construction and improvement bonds		
Serial, term and capital appreciation bonds	\$ 11,431,922	\$ 11,770,168
Premiums	273,609	282,552
Discounts	<u>(121,433)</u>	<u>(125,402)</u>
Total long-term obligations	<u>\$ 11,584,098</u>	<u>\$ 11,927,318</u>

Current Issues

The last component of the District’s Ohio Facilities Construction Commission (“OFCC”) project is currently underway with tearing down of the bus garage happening in early fiscal year 2019. All other buildings associated with the OFCC project are operating successfully. As of August 1, 2018, the District took possession of the building which now serves as the District’s transportation facility.

The Kenton Athletic Boosters have constructed a new athletic facility through generous donations from community members and businesses. This facility will be equipped with artificial turf, allowing the District to utilize this building all year long.

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. An additional social worker gives the District a total of two: one specifically for PK - 6 and one for grades 7-12.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

We are in the final 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 District is able to provide career based instruction, mentoring, tutoring, and internships for students in grades K-12.

Through a \$150,000 Community Connector Grant, the District has been able 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 three of implementation for this program which will include professional development and programming for students, staff and parents. The District is also able to make Kenton Middle School a "Leader in Me" building. The school is in year one of the implementation process.

STEM opportunities have been expanded to Kenton Elementary students in grades 4-8. Students will participate in a 45-minute STEM innovation course once a week.

The District has also become a site for Interventionland. This curriculum will be taught in grades 4-8 and Kenton Elementary School will host a Day of Innovation for the State of Ohio on February 6, 2019.

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, 2018

	Governmental Activities
Assets:	
Equity in pooled cash and investments	\$ 12,258,707
Total assets.	12,258,707
 Net cash position:	
Restricted for:	
Capital projects	956,898
Classroom facilities maintenance	599,465
Debt service.	416,233
Locally funded programs	1,497
Public school support	4,453
Student activities	119,479
Other purposes	346,556
Unrestricted	9,814,126
Total net cash position	\$ 12,258,707

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, 2018

	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	\$ 10,639,947	\$ 1,266,788	\$ 128,909	\$ (9,244,250)
Special	4,120,871	335,756	2,305,705	(1,479,410)
Vocational	262,997	-	61,526	(201,471)
Support services:				
Pupil	1,088,137	-	105,058	(983,079)
Instructional staff	473,413	-	81,512	(391,901)
Board of education	44,269	-	-	(44,269)
Administration	1,896,741	-	33,057	(1,863,684)
Fiscal	414,055	-	1,872	(412,183)
Operations and maintenance	1,928,233	10,838	27,273	(1,890,122)
Pupil transportation	1,998,805	2,630	36,206	(1,959,969)
Central	5,225	-	-	(5,225)
Operation of non-instructional services:				
Other non-instructional services	174,614	-	4,196	(170,418)
Food service operations	1,019,561	249,246	743,732	(26,583)
Extracurricular activities	611,835	180,252	43,851	(387,732)
Debt service:				
Principal retirement	370,000	-	-	(370,000)
Interest and fiscal charges	410,556	-	-	(410,556)
Total governmental activities	<u>\$ 25,459,259</u>	<u>\$ 2,045,510</u>	<u>\$ 3,572,897</u>	<u>(19,840,852)</u>
General receipts:				
Property taxes levied for:				
General purposes				4,619,605
Classroom facilities maintenance				85,657
Debt service				706,385
Income taxes levied for:				
General purposes				1,984,482
Grants and entitlements not restricted to specific programs				11,210,351
Investment earnings				109,226
Miscellaneous				234,780
Total general receipts				<u>18,950,486</u>
Change in net cash position				(890,366)
Net cash position at beginning of year				<u>13,149,073</u>
Net cash position at end of year				<u>\$ 12,258,707</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, 2018

	<u>General</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and investments	\$ 7,641,464	\$ 2,923,141	\$ 1,694,102	\$ 12,258,707
Total assets	<u>7,641,464</u>	<u>2,923,141</u>	<u>1,694,102</u>	<u>12,258,707</u>
Fund cash balances:				
Restricted:				
Debt service	-	-	416,233	416,233
Capital improvements	-	626,320	330,578	956,898
Classroom facilities maintenance	-	-	599,465	599,465
Food service operations	-	-	346,556	346,556
Other purposes	-	-	5,950	5,950
Extracurricular activities	-	-	119,479	119,479
Committed:				
Underground storage tank	11,000	-	-	11,000
Assigned:				
Student instruction	499,325	-	-	499,325
Student and staff support	186,256	-	-	186,256
Extracurricular activities	22,152	-	-	22,152
Capital improvements	-	2,296,821	-	2,296,821
Unassigned (deficit)	6,922,731	-	(124,159)	6,798,572
Total fund cash balances	<u>\$ 7,641,464</u>	<u>\$ 2,923,141</u>	<u>\$ 1,694,102</u>	<u>\$ 12,258,707</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, 2018

	<u>General</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash receipts:				
From local sources:				
Property taxes	\$ 4,619,605	\$ -	\$ 792,042	\$ 5,411,647
Income taxes	1,984,482	-	-	1,984,482
Tuition	1,372,056	-	-	1,372,056
Transportation fees	2,630	-	-	2,630
Earnings on investments	109,161	-	65	109,226
Charges for services	-	-	249,246	249,246
Extracurricular	10,236	-	166,660	176,896
Classroom materials and fees	40,720	-	-	40,720
Rental income	10,838	-	-	10,838
Contributions and donations	3,761	-	36,911	40,672
Contract services	193,124	-	-	193,124
Other local revenues	231,019	-	11,799	242,818
Intergovernmental - state	12,332,948	-	225,426	12,558,374
Intergovernmental - federal	102,827	-	2,073,337	2,176,164
Total cash receipts	<u>21,013,407</u>	<u>-</u>	<u>3,555,486</u>	<u>24,568,893</u>
Cash disbursements:				
Current:				
Instruction:				
Regular	10,498,074	-	141,873	10,639,947
Special	3,060,686	-	1,060,185	4,120,871
Vocational	262,997	-	-	262,997
Support services:				
Pupil	983,830	-	104,307	1,088,137
Instructional staff	388,304	-	85,109	473,413
Board of education	44,269	-	-	44,269
Administration	1,882,160	-	14,581	1,896,741
Fiscal	397,406	-	16,649	414,055
Operations and maintenance	1,902,114	-	26,119	1,928,233
Pupil transportation	1,028,077	-	970,728	1,998,805
Central	5,225	-	-	5,225
Operation of non-instructional services:				
Other operation of non-instructional	170,387	-	4,227	174,614
Food service operations	-	-	1,019,561	1,019,561
Extracurricular activities	420,782	-	191,053	611,835
Debt service:				
Principal retirement	-	-	370,000	370,000
Interest and fiscal charges	-	-	410,556	410,556
Total cash disbursements	<u>21,044,311</u>	<u>-</u>	<u>4,414,948</u>	<u>25,459,259</u>
Net change in fund cash balances	(30,904)	-	(859,462)	(890,366)
Fund cash balances at beginning of year . . .	<u>7,672,368</u>	<u>2,923,141</u>	<u>2,553,564</u>	<u>13,149,073</u>
Fund cash balances at end of year	<u>\$ 7,641,464</u>	<u>\$ 2,923,141</u>	<u>\$ 1,694,102</u>	<u>\$ 12,258,707</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary basis receipts:				
From local sources:				
Property taxes	\$ 4,565,625	\$ 4,581,500	\$ 4,619,605	\$ 38,105
Income taxes.	2,122,806	2,000,000	1,984,482	(15,518)
Tuition.	1,358,262	1,299,685	1,372,055	72,370
Transportation fees.	1,804	1,700	2,630	930
Earnings on investments	74,298	80,000	109,161	29,161
Rental income	29,719	28,000	10,838	(17,162)
Contract services.	212,281	200,000	193,124	(6,876)
Other local revenues	34,283	32,300	98,217	65,917
Intergovernmental - state	12,443,207	12,321,057	12,332,947	11,890
Intergovernmental - federal	212,281	200,000	102,827	(97,173)
Total budgetary basis receipts.	<u>21,054,566</u>	<u>20,744,242</u>	<u>20,825,886</u>	<u>81,644</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	11,344,658	11,772,116	10,927,963	844,153
Special.	3,501,838	3,334,887	3,067,550	267,337
Vocational.	331,527	369,842	294,837	75,005
Support services:				
Pupil.	932,820	1,081,730	988,028	93,702
Instructional staff	515,680	482,783	401,880	80,903
Board of education	82,100	59,270	46,978	12,292
Administration.	2,007,825	2,080,135	1,923,667	156,468
Fiscal	483,860	461,860	398,560	63,300
Operations and maintenance.	2,141,993	2,245,743	1,964,101	281,642
Pupil transportation	1,233,398	1,243,598	1,089,202	154,396
Central.	5,500	5,500	5,225	275
Other operation of non-instructional services	173,190	175,305	170,387	4,918
Extracurricular activities.	457,002	459,126	393,873	65,253
Total budgetary basis disbursements	<u>23,211,391</u>	<u>23,771,895</u>	<u>21,672,251</u>	<u>2,099,644</u>
Excess of budgetary basis disbursements over budgetary basis receipts	<u>(2,156,825)</u>	<u>(3,027,653)</u>	<u>(846,365)</u>	<u>2,181,288</u>
Other financing sources (uses):				
Refund of prior year's expenditures	89,000	89,000	124,584	35,584
Refund of prior year's receipts.	-	(500)	(309)	191
Sale of capital assets	-	-	2,560	2,560
Total other financing sources (uses).	<u>89,000</u>	<u>88,500</u>	<u>126,835</u>	<u>38,335</u>
Net change in fund balance	(2,067,825)	(2,939,153)	(719,530)	2,219,623
Fund balance at beginning of year	7,125,477	7,125,477	7,125,477	-
Prior year encumbrances appropriated	478,746	478,746	478,746	-
Fund balance at end of year	<u>\$ 5,536,398</u>	<u>\$ 4,665,070</u>	<u>\$ 6,884,693</u>	<u>\$ 2,219,623</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET CASH POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and investments	\$ 41,201	\$ 151,382
Total assets.	<u>41,201</u>	<u>\$ 151,382</u>
Liabilities:		
Due to students.	-	\$ 96,577
Due to others	-	54,805
Total liabilities	<u>-</u>	<u>\$ 151,382</u>
Net cash position:		
Held in trust for students	1,887	
Held in trust for scholarships	39,314	
Total net cash position	<u>\$ 41,201</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, 2018

	Private-Purpose Trust
	Scholarship
Additions:	
Gifts and contributions.	\$ 11,754
Total additions.	11,754
 Deductions:	
Scholarships awarded	7,200
Change in net position	4,554
 Net cash position at beginning of year . .	36,647
Net cash position at end of year	\$ 41,201

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, 2018

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 97 classified employees, 142 certified teaching personnel, and 33 administrative employees who provide services to 1,869 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, 2018

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, 2018

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, 2018

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".

During fiscal year 2018, 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, nonnegotiable 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 2018 was \$109,161, which includes \$44,457 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 2018, 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 2018, 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 \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 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, 2018

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 modified cash basis of accounting used by the District.

I. Long-Term Obligations

Modified 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, 2018

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/Other Postemployment Benefits (OPEB)

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2018, the District has implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension", GASB Statement No. 81 "Irrevocable Split-Interest Agreements" GASB Statement No. 85, "Omnibus 2017" and GASB Statement No. 86, "Certain Debt Extinguishments".

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 affected the District's postemployment benefit plan disclosures, as presented in Note 10 to the basic financial statements.

GASB Statement No. 81 improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the District.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the District.

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the District.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2018 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Public school preschool	\$ 7,989
Vocational Education Enhancement	4,589
Title VI-B	31,701
Title I	41,932
IDEA Preschool Grant for the Handicapped	345
Title II-A	9,102
Miscellaneous federal grant	28,501

The general fund is liable for any deficit in these funds and provides transfers when cash is required.

C. 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.

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, 2018

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 notes, limited to 40% (5% for a single issuer) in total of the interim monies available for investment at any one time and for a period not to exceed two hundred seventy days; and
9. Bankers acceptances, limited to 40% of the interim monies available for investment at any one time and for a period not to exceed one hundred eighty days.

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, 2018, the carrying amount of all School District deposits was \$7,573,296, including \$1,564,053 in nonnegotiable certificates of deposit, and the bank balance of all School District deposits was \$8,525,426. Of the bank balance, \$2,411,330 was covered by the FDIC and \$6,114,096 was covered by the Ohio Pooled Collateral System.

Custodial credit risk is the risk that, in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the School District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a reduced rate set by the Treasurer of State.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of June 30, 2018, 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>
FHLMC	\$ 500,000	\$ -	\$ -	\$ -	\$ -	\$ 500,000
FHLB	1,000,000	-	-	-	-	1,000,000
Negotiable CDs	1,817,919	240,002	844,917	487,000	246,000	-
US Government money market	34,184	34,184	-	-	-	-
STAR Ohio	1,525,691	1,525,691	-	-	-	-
Total	\$ 4,877,794	\$ 1,799,877	\$ 844,917	\$ 487,000	\$ 246,000	\$ 1,500,000

The weighted average maturity of investments is 1.34 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, 2018:

<u>Investment type</u>	<u>Cost</u>	<u>% of Total</u>
FHLMC	\$ 500,000	10.25
FHLB	1,000,000	20.50
Negotiable CDs	1,817,919	37.27
US Government money market	34,184	0.70
STAR Ohio	1,525,691	31.28
Total	\$ 4,877,794	100.00

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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, 2018:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 7,573,296
Investments	4,877,794
Cash on hand	<u>200</u>
Total	<u>\$ 12,451,290</u>
 <u>Cash and investments per financial statements</u>	
Governmental activities	\$ 12,258,707
Private-purpose trust funds	41,201
Agency funds	<u>151,382</u>
Total	<u>\$ 12,451,290</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 2018 represent the collection of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed values as of January 1, 2017, 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 2018 represent the collection of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 became a lien on December 31, 2016, were levied after April 1, 2017, 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, 2018, are available to finance fiscal year 2019 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, 2018

NOTE 5 - PROPERTY TAXES - (Continued)

The assessed values upon which fiscal year 2018 taxes were collected are:

	2017 Second Half Collections		2018 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 223,685,720	94.55	\$ 214,595,310	93.85
Public utility personal	<u>12,882,910</u>	<u>5.45</u>	<u>14,071,610</u>	<u>6.15</u>
Total	<u>\$ 236,568,630</u>	<u>100.00</u>	<u>\$ 228,666,920</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
General operations	\$34.20		\$34.20	
Bond retirement	3.40		3.50	
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 2018, 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 2018, the District participated in the Schools of Ohio Risk Sharing Authority (SOSRA), an insurance purchasing pool. Each participant enters into an individual agreement with SORSA for insurance coverage and pays annual premiums to SORSA based on the types and limits of coverage and deductibles selected by the participant.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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	\$ 689,966
Permanent improvement fund	124,000
Other governmental	<u>239,375</u>
Total	<u>\$ 1,053,341</u>

NOTE 9 - DEFINED BENEFIT 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, 2018

NOTE 9 - DEFINED BENEFIT 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 65 with 5 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, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent of the employer contribution rate was allocated to the Health Care Fund.

The District’s contractually required contribution to SERS was \$400,989 for fiscal year 2018.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description - State Teachers Retirement System (STRS)

Plan Description - 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 website 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. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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% of the 14% member rate goes to the DC Plan and the remaining 2% 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 service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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, 2018

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2018, 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 fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$1,342,260 for fiscal year 2018.

Net Pension Liability

The net pension liability was measured as of June 30, 2017, 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	Total
Proportion of the net pension liability prior measurement date	0.08391450%	0.08153379%	
Proportion of the net pension liability current measurement date	<u>0.09073710%</u>	<u>0.08454609%</u>	
Change in proportionate share	<u>0.00682260%</u>	<u>0.00301230%</u>	
Proportionate share of the net pension liability	\$ 5,421,341	\$ 20,084,105	\$ 25,505,446

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, 2018

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, 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	2.50 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

Prior to 2017, an assumption of 3 percent was used for COLA or Ad Hoc COLA.

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disable members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was completed for the five year period ended June 30, 2015.

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

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
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	<u>10.00</u>	3.00
Total	<u>100.00 %</u>	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

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	\$ 7,523,413	\$ 5,421,341	\$ 3,660,428

Actuarial Assumptions - STRS Ohio

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented below:

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment rate of return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll increases	3 percent	3.5 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017	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 commences on fifth anniversary of retirement date.

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

For the July 1, 2016 actuarial valuation, 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 no set back from age 90 and above.

Actuarial assumptions used in the July 1 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	2.25
 Total	 <u><u>100.00 %</u></u>	

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate - The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. 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, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 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 (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net pension liability	\$ 28,789,881	\$ 20,084,105	\$ 12,750,794

NOTE 10 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

For fiscal year 2018, Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was effective. This GASB pronouncement had no effect on beginning net position as reported June 30, 2017, as the net OPEB liability is not reported in the accompanying financial statements. The net OPEB liability has been disclosed below.

OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB liability represents the District's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB 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 these estimates 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 OPEB are financed; however, the District does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

Plan Description - School Employees Retirement System (SERS)

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 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. 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 Chapter 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. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the District's surcharge obligation was \$106,515.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$121,366 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

Net OPEB Liability

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportion of the net OPEB liability prior measurement date	0.09698289%	0.08153379%	
Proportion of the net OPEB liability current measurement date	<u>0.09208390%</u>	<u>0.08454609%</u>	
Change in proportionate share	<u>-0.00489899%</u>	<u>0.00301230%</u>	
Proportionate share of the net OPEB liability	\$ 2,471,290	\$ 3,298,676	\$ 5,769,966

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 terminations). 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
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.56 percent
Prior measurement date	2.92 percent
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.63 percent
Prior measurement date	2.98 percent
Medical trend assumption:	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five-year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	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 discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the State statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
District's proportionate share of the net OPEB liability	\$ 2,984,397	\$ 2,471,290	\$ 2,064,778
	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
District's proportionate share of the net OPEB liability	\$ 2,005,267	\$ 2,471,290	\$ 3,088,080

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Payroll increases	3 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended discount rate of return	4.13 percent
Health care cost trends	6 to 11 percent initial, 4.5 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also, since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

**KENTON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

STRS' 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	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate - The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - DEFINED BENEFIT OPEB PLANS - (Continued)

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
District's proportionate share of the net OPEB liability	\$ 4,428,420	\$ 3,298,676	\$ 2,405,810
	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 2,291,779	\$ 3,298,676	\$ 4,623,871

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, 2018

NOTE 12 - LONG-TERM OBLIGATIONS

Changes in the District's long-term obligations during fiscal year 2018 were as follows:

	Balance 6/30/17	Additions	Reductions	Balance 6/30/18	Due Within One Year
Governmental Activities:					
Capital leases	\$ 36,884	\$ -	\$ (36,884)	\$ -	\$ -
General Obligation Bonds					
FY 2012 School Facilities Construction and Improvement Bonds					
Serial Bonds 1.5-4%	6,955,000	-	(370,000)	6,585,000	375,000
Term Bonds 4%	4,705,000	-	-	4,705,000	-
Capital Appreciation Bonds	29,587	-	-	29,587	-
Accreted interest	80,581	31,754	-	112,335	-
Premium	282,552	-	(8,943)	273,609	-
Discount	(125,402)	-	3,969	(121,433)	-
	-	-	-	-	-
	-	-	-	-	-
Total General Obligation Bonds	<u>\$ 11,964,202</u>	<u>\$ 31,754</u>	<u>\$ (411,858)</u>	<u>\$ 11,584,098</u>	<u>\$ 375,000</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 2018, \$112,335 was accreted for a total bond value of \$141,922 at fiscal year-end.

The District's overall debt margin was \$9,676,669 with an unvoted debt margin of \$228,667 at June 30, 2018.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2018, were as follows:

Fiscal Year Ending June 30,	General Obligation Bonds					
	Serial & Term			Capital Appreciation		
	Principal	Interest	Total	Principal	Interest	Total
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	405,000	368,844	773,844	-	-	-
2024 - 2028	2,245,000	1,630,488	3,875,488	-	-	-
2029 - 2033	2,675,000	1,098,097	3,773,097	-	-	-
2034 - 2038	3,225,000	628,500	3,853,500	-	-	-
2039 - 2040	1,480,000	59,800	1,539,800	-	-	-
Total	<u>\$ 11,290,000</u>	<u>\$ 5,352,123</u>	<u>\$ 16,642,123</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 \$36,884 in principal payments on the leases during fiscal year 2018. Capital lease payments are reflected as regular and food service operations disbursements for governmental funds. At June 30, 2018, there were no further obligations.

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, 2018

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, 2017	\$ -
Current year set-aside requirement	333,869
Contributions in excess of the current fiscal year set-aside requirement	-
Current year qualifying expenditures	-
Excess qualified expenditures from prior years	-
Current year offsets	(96,393)
Waiver granted by ODE	-
Prior year offset from bond proceeds	<u>(237,476)</u>
Total	<u>\$ -</u>
Balance carried forward to fiscal year 2019	<u>\$ -</u>
Set-aside balance June 30, 2018	<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 \$13,127,241 at June 30, 2018.

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, 2018

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 2018, the District paid \$208,109 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, 2018

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, 2018.

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 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 financial statements is not determinable, at this time. Management believes this may result in either additional receipts or disbursements to 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 modified cash basis statement to the budgetary basis statement for the general fund:

Fund Balance at End of Year	
	<u>General fund</u>
Modified cash basis	\$ 7,641,464
Funds budgeted elsewhere	(73,220)
Adjustment for encumbrances	<u>(683,551)</u>
Budget basis	<u>\$ 6,884,693</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, 2018

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 \$4,173 during fiscal year 2018.

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 \$75,449 during fiscal year 2018.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018
(Prepared by Management)**

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	\$ 491,528
National School Breakfast Program	10.553	3L70	226,340
Summer Food Services Program for Children	10.559	3L60	21,006
Non-Cash Assistance			
National School Lunch Program - See Note F	10.555	3L60	57,250
Total U.S. Department of Agriculture			<u>796,124</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 FY17	84.010	3M00	75,776
Title I Grants to LEA FY18	84.010	3M00	464,859
Total Title I			<u>540,635</u>
<i>Special Education Cluster (IDEA):</i>			
Special Education - Grants to States (IDEA, Part B)	84.027	3M20	430,901
Special Education - Preschool Grants (IDEA Preschool)	84.173	3C50	10,334
Total IDEA Part B Special Education Cluster			<u>441,235</u>
Rural Education FY18	84.358	3Y80	40,040
Total Rural Education			<u>40,040</u>
Improving Teacher Quality State Grants FY18	84.367	3Y60	82,684
Total Improving Teacher Quality			<u>82,684</u>
After School Learning Centers (21st Century) Subsidy FY17	84.287	n/a	26,783
After School Learning Centers (21st Century) Subsidy FY18	84.287	n/a	136,615
Total 21st Century			<u>163,398</u>
Student Support and Academic Enrichment Program FY18	84.424	N/A	10,732
Total Student Support and Academic Enrichment Program			<u>10,732</u>
Total U.S. Department of Education			<u>1,278,724</u>
Total Expenditures of Federal Awards			<u>\$ 2,074,848</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, 2018
(Prepared by Management)**

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) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position 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 Uniform Guidance wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

NOTE C – INDIRECT COST RATE

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D - SUBRECIPIENTS

The District passes certain federal awards received from the Ohio Department of Education to other governments or not-for-profit agencies (subrecipients). As Note B describes, the District reports expenditures of Federal awards to subrecipients when paid in cash.

As a subrecipient, the District has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals.

NOTE E - 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 F – 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.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2018
(Prepared by Management)**

NOTE G - 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 from 2018 to 2019 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amt. Transferred</u>
Title I Grants to Local Educational Agencies	84.010	\$ 13,324
Special Education - Grants to States	84.027	3,657
Special Education - Preschool Grants	84.173	453
Rural Education	84.358	2,621
Improving Teacher Quality State Grants	84.367	72

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, 2018, 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 16, 2018, wherein we noted that District uses a special purpose framework other than generally accepted accounting principles. We also noted the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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 opinions 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 its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2018-001.


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 16, 2018.

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 *Government 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 16, 2018

**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, 2018. 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 that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the 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, 2018.

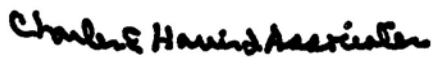
Report on Internal Control Over Compliance

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 16, 2018

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2018**

1. SUMMARY OF AUDITOR'S RESULTS
--

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material weaknesses in internal control reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	No
(d)(1)(vii)	Major Programs (list):	Title I – CFDA # 84.010 Special Education Cluster – CFDA # 84.027, 84.173
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR §200.520?	No

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2018**

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

FINDING NUMBER 2018-001: 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, 2018. 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, 2018
(Prepared by Management)**

Finding Number	Finding Summary	Status	Additional Information
2017-001	<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	See corrective action plan
2017-002	<p>Material Weakness – Bank Reconciliation and Recording of activity in Agency Fund – Flex Account – No reconciliation of the flex account has been done in 5 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.

**KENTON CITY SCHOOL DISTRICT
HARDIN COUNTY**

**CORRECTIVE ACTION PLAN
2 CFR 200.511(c)
JUNE 30, 2018
(Prepared by Management)**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	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

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OHIO AUDITOR OF STATE
KEITH FABER



KENTON CITY SCHOOL DISTRICT

HARDIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 14, 2019**