

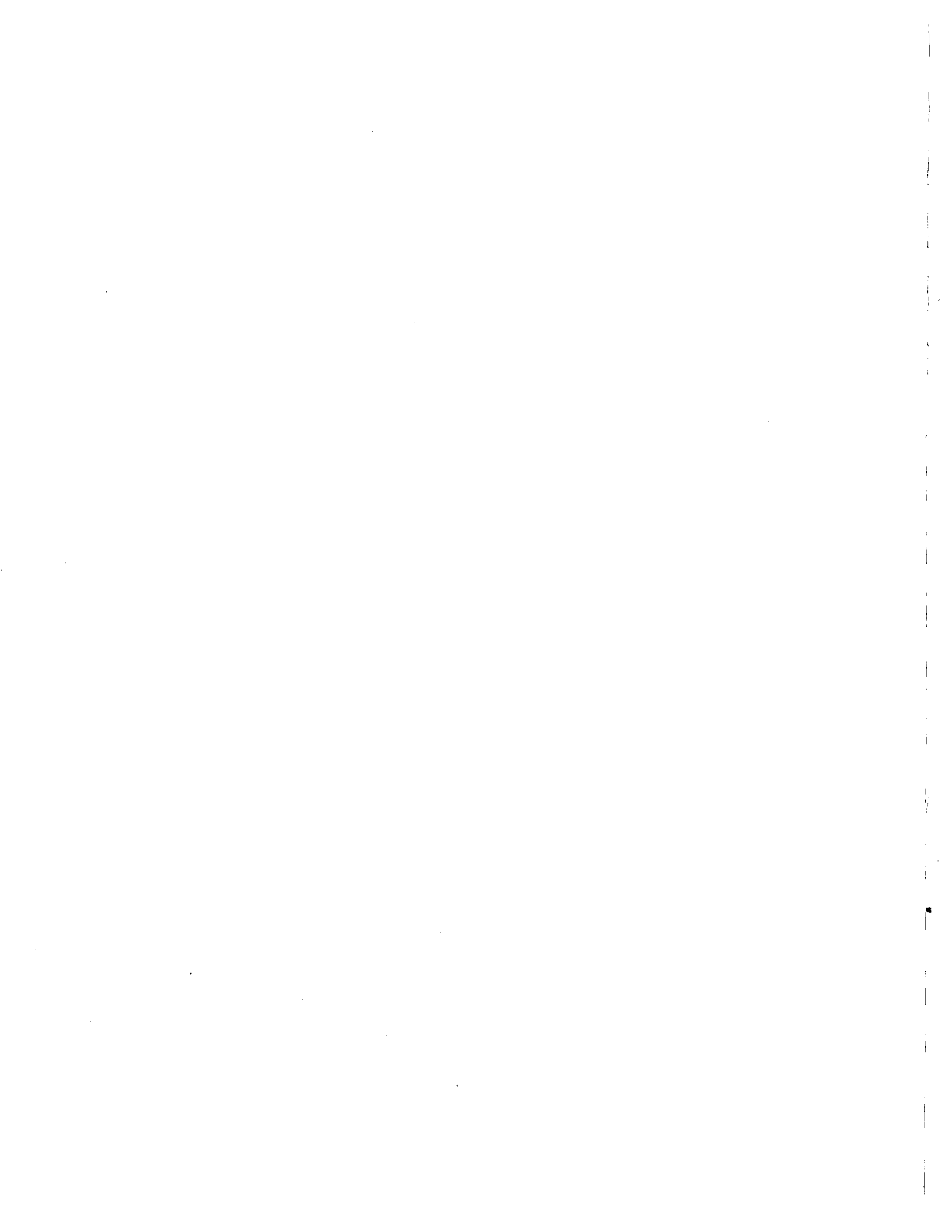


Dave Yost • Auditor of State

**Kirtland Local School District
Lake County, Ohio**

**General Purpose External Financial Statements
For the Fiscal Year Ended June 30, 2017**

Local Government Services Section



Kirtland Local School District
Basic Financial Statements
For the Fiscal Year Ended June 30, 2017
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Dave Yost • Auditor of State

Board of Education
Kirtland Local School District
9252 Chillicothe Road
Kirtland, Ohio 44094

Accountant's Compilation Report

Management is responsible for the accompanying basic financial statements of the Kirtland Local School District as of and for the fiscal year ended June 30, 2017, in accordance with accounting principles generally accepted in the United States of America. We have performed compilation engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the accompanying financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Management's Discussion and Analysis is supplementary information required by the Governmental Accounting Standards Board and was prepared by management. We did not compile, review or audit the information nor do we express an opinion, a conclusion, nor provide any assurance on the information.

The Schedules of the School District's Proportionate Share of Net Pension Liability and the Schedules of the School District's Contributions are not part of the basic financial statements but the Governmental Accounting Standards Board requires their presentation to supplement the basic financial statement. We have compiled these schedules without audit or review and, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on this information.

DAVE YOST
Auditor of State

A handwritten signature in cursive script that reads "Unice S. Smith".

Unice S. Smith
Chief of Local Government Services

October 19, 2017

Kirtland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

The discussion and analysis of the Kirtland Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- The School District is committed to meeting the academic needs of our students by providing them with updated instructional materials to compete in a global environment. During fiscal year 2017, the School District continued to provide professional development for staff members as more technology is introduced into the curriculum and classrooms.
- General revenues accounted for the majority of all revenues, with tax revenues representing the largest share of those revenues. Specific program revenues in the form of charges for services, operating grants, and contributions accounted for the remainder of all revenues.

Using this Annual Financial Report

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

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

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains all of the funds used by the School District to provide programs and activities, the view of the School District as a whole considers all financial transactions and asks the question "How did we perform financially during fiscal year 2017?" The statement of net position and the statement of activities answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting, used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Kirtland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

These two statements report the School District's net position and changes in that net position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many financial or non-financial factors. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net position and the statement of activities, all of the School District's activities are classified as governmental. The School District's programs and services reported here include instruction, support services, operation of non-instructional services and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

Fiduciary Fund The School District has only one type of fiduciary fund, an agency fund. The agency fund is used to account for resources held for the benefit of parties outside the School District. The agency fund is not reflected on the government-wide statements because the resources from that fund are not available to support the School District's programs. This fund uses the accrual basis of accounting.

Kirtland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

The School District as a Whole

You may recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a comparison of the School District's net position for 2017 compared to 2016.

Table 1
 Net Position
 Governmental Activities

| | 2017 | 2016 | Change |
|---|----------------------|----------------------|----------------------|
| Assets | | | |
| Current and Other Assets | \$20,911,343 | \$20,806,778 | \$104,565 |
| Capital Assets, Net | <u>17,049,563</u> | <u>17,389,441</u> | <u>(339,878)</u> |
| Total Assets | <u>37,960,906</u> | <u>38,196,219</u> | <u>(235,313)</u> |
| Deferred Outflows of Resources | | | |
| Deferred Charge on Refunding | 929,340 | 1,069,151 | (139,811) |
| Pension | <u>5,389,661</u> | <u>2,858,208</u> | <u>2,531,453</u> |
| <i>Total Deferred Outflows of Resources</i> | <u>6,319,001</u> | <u>3,927,359</u> | <u>2,391,642</u> |
| Liabilities | | | |
| Current Liabilities | 2,095,731 | 1,903,061 | (192,670) |
| Long-Term Liabilities: | | | |
| Due Within One Year | 750,577 | 722,227 | (28,350) |
| Due in More than One Year: | | | |
| Net Pension Liability | 25,823,819 | 21,130,324 | (4,693,495) |
| Other Amounts Due in More Than One Year | <u>14,162,450</u> | <u>14,549,268</u> | <u>386,818</u> |
| Total Liabilities | <u>42,832,577</u> | <u>38,304,880</u> | <u>(4,527,697)</u> |
| Deferred Inflows of Resources | | | |
| Property Taxes | 11,011,598 | 11,136,470 | 124,872 |
| Pension | <u>314,640</u> | <u>1,421,677</u> | <u>1,107,037</u> |
| <i>Total Deferred Inflows of Resources</i> | <u>11,326,238</u> | <u>12,558,147</u> | <u>1,231,909</u> |
| Net Position | | | |
| Net Investment in Capital Assets | 4,438,554 | 4,232,843 | 205,711 |
| Restricted For: | | | |
| Capital Projects | 389,702 | 291,925 | 97,777 |
| Debt Service | 847,518 | 490,685 | 356,833 |
| Other Purposes | 404,585 | 267,403 | 137,182 |
| Unrestricted (Deficit) | <u>(15,959,267)</u> | <u>(14,022,305)</u> | <u>(1,936,962)</u> |
| Total Net Position | <u>(\$9,878,908)</u> | <u>(\$8,739,449)</u> | <u>(\$1,139,459)</u> |

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2017 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Kirtland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

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

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

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

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

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

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

Net position decreased primarily as a result of an increase in net pension liability, offset partially by an increase in deferred outflows related to pension.

Kirtland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Table 2 shows the changes in net position for fiscal years 2017 compared to 2016.

Table 2
 Changes in Position
 Governmental Activities

| | 2017 | 2016 | Change |
|--|----------------------|----------------------|----------------------|
| Revenues | | | |
| Program Revenues: | | | |
| Charges for Services | \$720,234 | \$508,923 | \$211,311 |
| Operating Grants and Contributions | 604,521 | 633,318 | (28,797) |
| <i>Total Program Revenues</i> | <u>1,324,755</u> | <u>1,142,241</u> | <u>182,514</u> |
| General Revenues: | | | |
| Property Taxes | 12,786,343 | 12,962,917 | (176,574) |
| Grant and Entitlements | 2,486,413 | 2,542,736 | (56,323) |
| Unrestricted Contributions and Donations | 31,438 | 37,505 | (6,067) |
| Investment Earnings | 41,955 | 46,423 | (4,468) |
| Miscellaneous | 542,520 | 286,789 | 255,731 |
| <i>Total General Revenues</i> | <u>15,888,669</u> | <u>15,876,370</u> | <u>12,299</u> |
| <i>Total Revenues</i> | <u>17,213,424</u> | <u>17,018,611</u> | <u>194,813</u> |
| Program Expenses | | | |
| Instruction | 9,975,768 | 9,174,154 | (801,614) |
| Support Services: | | | |
| Pupil | 1,402,785 | 1,236,917 | (165,868) |
| Instructional Staff | 356,092 | 426,023 | 69,931 |
| Board of Education | 242,485 | 175,406 | (67,079) |
| Administration | 1,150,540 | 975,240 | (175,300) |
| Fiscal | 539,531 | 647,740 | 108,209 |
| Business | 43,194 | 25,780 | (17,414) |
| Operation and Maintenance of Plant | 1,437,769 | 1,391,650 | (46,119) |
| Pupil Transportation | 1,318,628 | 1,265,205 | (53,423) |
| Central | 242,710 | 195,328 | (47,382) |
| Operation of Non-Instructional Services: | | | |
| Food Service Operations | 330,615 | 259,585 | (71,030) |
| Extracurricular Activities | 834,857 | 855,607 | 20,750 |
| Interest and Fiscal Charges | 477,909 | 375,236 | (102,673) |
| <i>Total Program Expenses</i> | <u>18,352,883</u> | <u>17,003,871</u> | <u>(1,349,012)</u> |
| <i>Change in Net Position</i> | <u>(1,139,459)</u> | <u>14,740</u> | <u>(1,154,199)</u> |
| <i>Net Position Beginning of Year</i> | <u>(8,739,449)</u> | <u>(8,754,189)</u> | <u>14,740</u> |
| <i>Net Position End of Year</i> | <u>(\$9,878,908)</u> | <u>(\$8,739,449)</u> | <u>(\$1,139,459)</u> |

Kirtland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Governmental Activities

Several revenue sources primarily fund the School District's governmental activities. Property tax revenues brought the largest portion of general revenues having generated \$12,786,343 in fiscal year 2017. Grants and entitlements portion of the general revenues is the second largest source of revenues for the School District and includes monies received from the Ohio Department of Education, the State Foundation Program and property tax relief such as homestead exemptions and rollbacks provided by House Bill 920. Operating grants and contributions decreased slightly during fiscal year 2017 as the due to changes in grant funding. The combination of taxes and intergovernmental funding have provided for coverage of all expenses in governmental activities in past years.

Instruction expenses are the largest expense of the School District, comprising of 54.36 percent of total expenses. Operation and maintenance of plant expenses are those expenses concerned with keeping the physical plant open, comfortable and safe for use and keeping the grounds, buildings and equipment in an effective working condition and state of repair. These expenses make up 7.83 percent of expenses for fiscal year 2017. Overall, expenses increased during fiscal year 2017 due primarily to the School District directing more resources towards instruction.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal years 2017 and 2016. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
 Governmental Activities

| | 2017 | | 2016 | |
|--|---------------------------|-------------------------|---------------------------|-------------------------|
| | Total Cost Of Services | Net Cost of Services | Total Cost Of Services | Net Cost of Services |
| Instruction | \$9,975,768 | (\$9,280,444) | \$9,174,154 | (\$8,633,254) |
| Support Services: | | | | |
| Pupil | 1,402,785 | (1,378,106) | 1,236,917 | (1,214,187) |
| Instructional Staff | 356,092 | (356,092) | 426,023 | (426,023) |
| Board of Education | 242,485 | (242,485) | 175,406 | (175,406) |
| Administration | 1,150,540 | (1,150,540) | 975,240 | (975,240) |
| Fiscal | 539,531 | (539,531) | 647,740 | (647,740) |
| Business | 43,194 | (43,194) | 25,780 | (25,780) |
| Operation and Maintenance of Plant | 1,437,769 | (1,426,331) | 1,391,650 | (1,377,887) |
| Pupil Transportation | 1,318,628 | (1,318,628) | 1,265,205 | (1,265,205) |
| Central | 242,710 | (237,310) | 195,328 | (189,928) |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 330,615 | (102,390) | 259,585 | (20,856) |
| Extracurricular Activities | 834,857 | (475,168) | 855,607 | (534,888) |
| Interest and Fiscal Charges | 477,909 | (477,909) | 375,236 | (375,236) |
| Total Expenses | <u>\$18,352,883</u> | <u>(\$17,028,128)</u> | <u>\$17,003,871</u> | <u>(\$15,861,630)</u> |

The dependence upon general revenues for governmental activities is apparent. 69.67 percent of total expenses are supported through taxes. Program revenues support 7.22 percent of expenses. Grants and entitlements not restricted to specific programs, investments, and other miscellaneous type revenues support the remaining expenses.

Kirtland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

The School District's Funds

Information regarding the School District's major funds starts on page 14. All governmental funds are accounted for using the modified accrual basis of accounting. The School District's major funds are the general fund and the bond retirement debt service fund. All governmental funds had total revenues of \$17,136,403 and expenditures of \$17,211,996.

The general fund had a decrease in fund balance of \$550,274 for fiscal year 2017, due to a decrease in property tax revenues and tuition and fees revenue. The bond retirement debt service fund had an increase in fund balance of \$343,792.

General Fund Budgeting Highlights

Information about the School District's budget is prepared in accordance with 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 main operating fund of the School District, the general fund.

During the course of fiscal year 2017, the School District amended its general fund budget a number of times by the end of the fiscal year. Requests for budget changes are made by the Treasurer to reflect changes in projected revenues. With regard to the general fund, the final budgeted revenue was \$454,970 under actual revenues. Final budgeted expenditures were \$16,263,585, while actual expenditures were \$15,225,848. Final budget expenditures were \$799,604 more than the original budgeted expenditures. The School District monitors the budget on a monthly basis to keep it in line with current expenditures.

Capital Assets and Debt Administration

Capital Assets

Table 4 details fiscal year 2017 balances compared to the prior fiscal year. More detailed information is presented in Note 11.

Table 4
 Capital Assets at June 30
 (Net of Depreciation)
 Governmental Activities

| | 2017 | 2016 |
|----------------------------|---------------------|---------------------|
| Land | \$813,790 | \$813,790 |
| Construction in Progress | 51,027 | 0 |
| Land Improvements | 1,303,693 | 1,371,835 |
| Buildings and Improvements | 14,274,087 | 14,575,857 |
| Furniture and Equipment | 189,331 | 170,392 |
| Vehicles | 417,635 | 457,567 |
| Total | \$17,049,563 | \$17,389,441 |

A decrease in capital assets is the result of an additional year of annual depreciation on all capital assets other than land and construction in progress. Additions included major roof repairs to the School District's buildings and new equipment.

Kirtland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Debt

At June 30, 2017, the School District had \$13,613,650 in bonds outstanding with \$665,000 due within one year. Table 5 summarizes general obligation bonds outstanding for governmental activities for fiscal years 2017 and 2016.

Table 5
Outstanding Debt at June 30

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| 2007 School Improvement Bonds | \$0 | \$70,000 |
| 2013 School Improvement Refunding Bonds | 9,286,958 | 9,412,416 |
| 2016 School Improvement Refunding Bonds | <u>4,326,692</u> | <u>4,785,284</u> |
| Total Debt | <u>\$13,613,650</u> | <u>\$14,267,700</u> |

More information regarding long-term debt obligations of the School District is presented in Note 15.

Current Issues

The School District remains dependent upon local revenue to support the high quality educational programs. Currently 74.28 percent of total operating fund revenue is local property tax revenue. The Board of Education has practiced fiscal prudence and slowed the year over year growth of operating fund expenses, and has thoughtfully overseen the use on the 2014 operating fund levy proceeds. As a result of State funding policies for public education there is virtually no year over year growth in total operating fund revenues. This places great importance in gaining community support for renewing the 2014 operating levy. The Board of Education is reviewing levy renewal options and dates, and will likely place a renewal levy on the ballot in 2018 or 2019.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Dan Wilson, Treasurer at Kirtland Local School District, 9252 Chillicothe Road, Kirtland, Ohio, 44094, www.kirtlandschools.org.

Kirtland Local School District
Statement of Net Position
June 30, 2017

| | Governmental Activities |
|---|----------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$7,893,913 |
| Accrued Interest Receivable | 11,398 |
| Accounts Receivable | 25,490 |
| Intergovernmental Receivable | 415,536 |
| Property Taxes Receivable | 12,565,006 |
| Nondepreciable Capital Assets | 864,817 |
| Depreciable Capital Assets, Net | 16,184,746 |
| <i>Total Assets</i> | 37,960,906 |
| Deferred Outflows of Resources | |
| Deferred Charge on Refunding | 929,340 |
| Pension | 5,389,661 |
| <i>Total Deferred Outflows of Resources</i> | 6,319,001 |
| Liabilities | |
| Accounts Payable | 83,297 |
| Contracts Payable | 135,062 |
| Accrued Wages and Benefits | 1,425,598 |
| Intergovernmental Payable | 326,133 |
| Accrued Interest Payable | 31,152 |
| Matured Compensated Absences Payable | 28,092 |
| Accrued Vacation Leave Payable | 49,897 |
| Unearned Revenue | 16,500 |
| Long-Term Liabilities: | |
| Due Within One Year | 750,577 |
| Due In More Than One Year: | |
| Net Pension Liability (See Note 22) | 25,823,819 |
| Other Amounts Due in More Than One Year | 14,162,450 |
| <i>Total Liabilities</i> | 42,832,577 |
| Deferred Inflows of Resources | |
| Property Taxes | 11,011,598 |
| Pension | 314,640 |
| <i>Total Deferred Inflows of Resources</i> | 11,326,238 |
| Net Position | |
| Net Investment in Capital Assets | 4,438,554 |
| Restricted for: | |
| Capital Projects | 389,702 |
| Debt Service | 847,518 |
| Other Purposes | 404,585 |
| Unrestricted (Deficit) | (15,959,267) |
| <i>Total Net Position</i> | (\$9,878,908) |

See accompanying notes to the basic financial statements
See accountant's compilation report

Kirtland Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2017

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|------------------------------------|---------------------|-------------------------|--|--|
| | Expenses | Charges for Services | Operating Grants and Contributions | Governmental Activities |
| Governmental Activities | | | | |
| Instruction: | | | | |
| Regular | \$8,016,919 | \$295,583 | \$33,002 | (\$7,688,334) |
| Special | 1,753,223 | 0 | 366,692 | (1,386,531) |
| Vocational | 62,964 | 0 | 47 | (62,917) |
| Student Intervention Services | 142,662 | 0 | 0 | (142,662) |
| Support Services: | | | | |
| Pupil | 1,402,785 | 0 | 24,679 | (1,378,106) |
| Instructional Staff | 356,092 | 0 | 0 | (356,092) |
| Board of Education | 242,485 | 0 | 0 | (242,485) |
| Administration | 1,150,540 | 0 | 0 | (1,150,540) |
| Fiscal | 539,531 | 0 | 0 | (539,531) |
| Business | 43,194 | 0 | 0 | (43,194) |
| Operation and Maintenance of Plant | 1,437,769 | 11,438 | 0 | (1,426,331) |
| Pupil Transportation | 1,318,628 | 0 | 0 | (1,318,628) |
| Central | 242,710 | 0 | 5,400 | (237,310) |
| Food Service Operations | 330,615 | 127,865 | 100,360 | (102,390) |
| Extracurricular Activities | 834,857 | 285,348 | 74,341 | (475,168) |
| Interest and Fiscal Charges | 477,909 | 0 | 0 | (477,909) |
| Totals | \$18,352,883 | \$720,234 | \$604,521 | (17,028,128) |
| General Revenues | | | | |
| Property Taxes Levied for: | | | | |
| | | | | 11,355,765 |
| | | | | 1,200,823 |
| | | | | 229,755 |
| | | | | 2,486,413 |
| | | | | 31,438 |
| | | | | 41,955 |
| | | | | 542,520 |
| | | | | Total General Revenues |
| | | | | 15,888,669 |
| | | | | (1,139,459) |
| | | | | (8,739,449) |
| | | | | Net Position End of Year |
| | | | | (\$9,878,908) |

See accompanying notes to the basic financial statements
See accountant's compilation report

Kirtland Local School District
Balance Sheet
Governmental Funds
June 30, 2017

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------|--------------------------------|--------------------------------|
| Assets | | | | |
| Equity in Pooled Cash and | | | | |
| Cash Equivalents | \$6,376,780 | \$718,180 | \$798,953 | \$7,893,913 |
| Accrued Interest Receivable | 11,398 | 0 | 0 | 11,398 |
| Accounts Receivable | 25,439 | 0 | 51 | 25,490 |
| Intergovernmental Receivable | 230,609 | 0 | 184,927 | 415,536 |
| Interfund Receivable | 115,443 | 0 | 0 | 115,443 |
| Property Taxes Receivable | 11,456,997 | 881,435 | 226,574 | 12,565,006 |
| <i>Total Assets</i> | <u>\$18,216,666</u> | <u>\$1,599,615</u> | <u>\$1,210,505</u> | <u>\$21,026,786</u> |
| Liabilities, Deferred Inflows of Resources and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts Payable | \$78,419 | \$0 | \$4,878 | \$83,297 |
| Contracts Payable | 135,062 | 0 | 0 | 135,062 |
| Accrued Wages and Benefits | 1,415,565 | 0 | 10,033 | 1,425,598 |
| Interfund Payable | 0 | 0 | 115,443 | 115,443 |
| Intergovernmental Payable | 253,436 | 0 | 72,697 | 326,133 |
| Matured Compensated Absences Payable | 28,092 | 0 | 0 | 28,092 |
| Unearned Revenue | 16,500 | 0 | 0 | 16,500 |
| <i>Total Liabilities</i> | <u>1,927,074</u> | <u>0</u> | <u>203,051</u> | <u>2,130,125</u> |
| Deferred Inflows of Resources | | | | |
| Property Taxes | 10,091,827 | 720,945 | 198,826 | 11,011,598 |
| Unavailable Revenue | 270,277 | 29,537 | 117,564 | 417,378 |
| <i>Total Deferred Inflows of Resources</i> | <u>10,362,104</u> | <u>750,482</u> | <u>316,390</u> | <u>11,428,976</u> |
| Fund Balances | | | | |
| Restricted | 0 | 849,133 | 719,521 | 1,568,654 |
| Committed | 0 | 0 | 78,977 | 78,977 |
| Assigned | 1,549,890 | 0 | 0 | 1,549,890 |
| Unassigned (Deficit) | 4,377,598 | 0 | (107,434) | 4,270,164 |
| <i>Total Fund Balances</i> | <u>5,927,488</u> | <u>849,133</u> | <u>691,064</u> | <u>7,467,685</u> |
| <i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i> | <u>\$18,216,666</u> | <u>\$1,599,615</u> | <u>\$1,210,505</u> | <u>\$21,026,786</u> |

See accompanying notes to the basic financial statements
See accountant's compilation report

Kirtland Local School District
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2017

| | |
|--|---------------------------------|
| Total Governmental Fund Balances | \$7,467,685 |
| <i>Amounts reported for governmental activities in the statement of net position are different because:</i> | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 17,049,563 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue. | |
| Delinquent Property Taxes | 296,780 |
| Intergovernmental | 112,084 |
| Tuition and Fees | <u>8,514</u> |
| Total | 417,378 |
| Deferred outflows of resources represent deferred charges on refundings, which are not reported in the funds. | 929,340 |
| Long-term liabilities payable are not due and payable in the current period and therefore are not reported in the funds. | |
| General Obligation Bonds | (13,613,650) |
| Compensated Absences Payable | <u>(1,299,377)</u> |
| Total | (14,913,027) |
| Accrued interest payable is not due and payable in the current period and therefore not reported in the funds. | (31,152) |
| Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore is not reported in the funds. | (49,897) |
| The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the governmental funds: | |
| Deferred Outflows - Pension | 5,389,661 |
| Net Pension Liability | (25,823,819) |
| Deferred Inflows - Pension | <u>(314,640)</u> |
| Total | <u>(20,748,798)</u> |
| <i>Net Position of Governmental Activities</i> | <u><u>(\$9,878,908)</u></u> |

See accompanying notes to the basic financial statements
See accountant's compilation report

Kirtland Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2017

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|--------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Property Taxes | \$11,343,094 | \$1,189,317 | \$229,357 | \$12,761,768 |
| Intergovernmental | 2,377,685 | 160,988 | 400,986 | 2,939,659 |
| Interest | 39,984 | 1,889 | 82 | 41,955 |
| Tuition and Fees | 266,844 | 0 | 0 | 266,844 |
| Extracurricular Activities | 61,983 | 0 | 223,365 | 285,348 |
| Contributions and Donations | 31,438 | 0 | 107,343 | 138,781 |
| Charges for Services | 2,225 | 0 | 127,865 | 130,090 |
| Rentals | 29,438 | 0 | 0 | 29,438 |
| Miscellaneous | 413,561 | 0 | 128,959 | 542,520 |
| <i>Total Revenues</i> | <u>14,566,252</u> | <u>1,352,194</u> | <u>1,217,957</u> | <u>17,136,403</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 6,710,944 | 0 | 45,372 | 6,756,316 |
| Special | 1,406,765 | 0 | 225,614 | 1,632,379 |
| Vocational | 62,964 | 0 | 0 | 62,964 |
| Student Intervention Services | 129,989 | 0 | 0 | 129,989 |
| Support Services: | | | | |
| Pupil | 1,263,315 | 0 | 4,097 | 1,267,412 |
| Instructional Staff | 307,133 | 0 | 29,142 | 336,275 |
| Board of Education | 237,923 | 0 | 0 | 237,923 |
| Administration | 1,010,697 | 0 | 55,641 | 1,066,338 |
| Fiscal | 519,069 | 14,719 | 4,725 | 538,513 |
| Business | 43,194 | 0 | 0 | 43,194 |
| Operation and Maintenance of Plant | 1,331,047 | 0 | 72,294 | 1,403,341 |
| Pupil Transportation | 1,164,685 | 0 | 0 | 1,164,685 |
| Central | 227,845 | 0 | 14,087 | 241,932 |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 29,554 | 0 | 300,729 | 330,283 |
| Extracurricular Activities | 510,854 | 0 | 312,691 | 823,545 |
| Capital Outlay | 160,548 | 0 | 22,676 | 183,224 |
| Debt Service: | | | | |
| Principal Retirement | 0 | 610,000 | 0 | 610,000 |
| Interest and Fiscal Charges | 0 | 383,683 | 0 | 383,683 |
| <i>Total Expenditures</i> | <u>15,116,526</u> | <u>1,008,402</u> | <u>1,087,068</u> | <u>17,211,996</u> |
| <i>Net Change in Fund Balances</i> | (550,274) | 343,792 | 130,889 | (75,593) |
| <i>Fund Balances Beginning of Year</i> | <u>6,477,762</u> | <u>505,341</u> | <u>560,175</u> | <u>7,543,278</u> |
| <i>Fund Balances End of Year</i> | <u>\$5,927,488</u> | <u>\$849,133</u> | <u>\$691,064</u> | <u>\$7,467,685</u> |

See accompanying notes to the basic financial statements
See accountant's compilation report

Kirtland Local School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2017*

Net Change in Fund Balances - Total Governmental Funds (\$75,593)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

| | | |
|----------------|-----------|-----------|
| Capital Outlay | 316,315 | |
| Depreciation | (656,193) | |
| | | |
| Total | | (339,878) |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

| | | |
|---------------------------|--------|--------|
| Delinquent Property Taxes | 24,575 | |
| Intergovernmental | 43,932 | |
| Tuition and Fees | 8,514 | |
| | | |
| Total | | 77,021 |

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.

| | | |
|---|-----------|----------|
| Accrued Interest | 1,535 | |
| Accretion on Capital Appreciation Bonds | (31,350) | |
| Amortization of Accounting Loss | (139,811) | |
| Amortization of Bond Premium | 75,400 | |
| | | |
| Total | | (94,226) |

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 610,000

Some expenses, such as compensated absences and accrued vacation leave, reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

| | | |
|--------------------------------|-----------|-----------|
| Compensated Absences | (295,582) | |
| Accrued Vacation Leave Payable | 33,804 | |
| | | |
| Total | | (261,778) |

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts in deferred outflows. 1,222,477

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (2,277,482)

Change in Net Position of Governmental Activities (\$1,139,459)

See accompanying notes to the basic financial statements
See accountant's compilation report

Kirtland Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2017

| | Budgeted Amounts | | Actual | Variance With Final Budget Positive (Negative) |
|---|--------------------|--------------------|--------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Property Taxes | \$12,674,807 | \$12,674,807 | \$11,337,615 | (\$1,337,192) |
| Intergovernmental | 911,335 | 911,335 | 2,288,219 | 1,376,884 |
| Interest | 24,591 | 24,591 | 61,743 | 37,152 |
| Tuition and Fees | 40,300 | 40,300 | 101,188 | 60,888 |
| Extracurricular Activities | 24,587 | 24,587 | 61,733 | 37,146 |
| Contributions and Donations | 12,521 | 12,521 | 31,438 | 18,917 |
| Charges for Services | 1,991 | 1,991 | 5,000 | 3,009 |
| Rentals | 4,555 | 4,555 | 11,438 | 6,883 |
| Miscellaneous | 166,320 | 166,320 | 417,603 | 251,283 |
| <i>Total Revenues</i> | <u>13,861,007</u> | <u>13,861,007</u> | <u>14,315,977</u> | <u>454,970</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 6,888,558 | 7,034,615 | 6,655,294 | 379,321 |
| Special | 1,473,386 | 1,549,571 | 1,424,454 | 125,117 |
| Vocational | 65,958 | 69,369 | 67,523 | 1,846 |
| Student Intervention Services | 136,214 | 143,257 | 131,185 | 12,072 |
| Support Services: | | | | |
| Pupil | 1,311,667 | 1,379,490 | 1,272,891 | 106,599 |
| Instructional Staff | 322,937 | 339,635 | 312,188 | 27,447 |
| Board of Education | 237,578 | 249,863 | 228,807 | 21,056 |
| Administration | 1,057,454 | 1,112,132 | 1,021,289 | 90,843 |
| Fiscal | 542,410 | 570,456 | 569,007 | 1,449 |
| Business | 44,691 | 47,002 | 44,236 | 2,766 |
| Operation and Maintenance of Plant | 1,374,977 | 1,446,074 | 1,352,666 | 93,408 |
| Pupil Transportation | 1,210,873 | 1,273,485 | 1,166,800 | 106,685 |
| Central | 236,365 | 248,586 | 229,043 | 19,543 |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 30,687 | 32,274 | 29,682 | 2,592 |
| Extracurricular Activities | 530,226 | 557,643 | 510,650 | 46,993 |
| Capital Outlay | 0 | 210,133 | 210,133 | 0 |
| <i>Total Expenditures</i> | <u>15,463,981</u> | <u>16,263,585</u> | <u>15,225,848</u> | <u>1,037,737</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | (1,602,974) | (2,402,578) | (909,871) | 1,492,707 |
| Other Financing Sources (Uses) | | | | |
| Advances Out | 84,300 | 84,300 | 84,300 | 0 |
| <i>Net Change in Fund Balance</i> | (1,518,674) | (2,318,278) | (825,571) | 1,492,707 |
| <i>Fund Balance Beginning of Year</i> | 6,844,360 | 6,844,360 | 6,844,360 | 0 |
| Prior Year Encumbrances Appropriated | 27,061 | 27,061 | 27,061 | 0 |
| <i>Fund Balance End of Year</i> | <u>\$5,352,747</u> | <u>\$4,553,143</u> | <u>\$6,045,850</u> | <u>\$1,492,707</u> |

See accompanying notes to the basic financial statements
See accountant's compilation report

Kirtland Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2017

| | |
|--|------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | <u><u>\$25,185</u></u> |
| Liabilities | |
| Due to Students | <u><u>\$25,185</u></u> |

See accompanying notes to the basic financial statements
See accountant's compilation report

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 1 – Description of the School District and Reporting Entity

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

The School District was established in 1944 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 25 square miles. It is located mostly in Lake County, partially in Geauga County, and includes all of the territory of the City of Kirtland, and portions of Waite Hill Village, Kirtland Hills Village, Chardon Township and the City of Willoughby. It is staffed by 45 non-certified employees, 83 certified full-time teaching personnel, and 10 administrative employees who provide services to 1,223 students and other community members. The School District currently operates three school buildings, an administrative building, and a bus garage.

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

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

The School District is associated with three jointly governed organizations, a claims servicing pool, a related organization and an insurance purchasing pool. These organizations are the Lake Geauga Computer Association, the Auburn Career Center, the Ohio Schools Council Association, the Lake County Schools Health Care Consortium, the Kirtland Public Library and the Ohio School Boards' Association Workers' Compensation Group Rating Program which are presented in Notes 17, 18, 19 and 20 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Basis of Presentation

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

Government-wide Financial Statements The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. The School District however has no business-type activities.

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

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

Fund Accounting

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

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

General Fund The general fund is the operating fund of the School District and is used to account and report for all financial resources except those required to be accounted for and reported 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.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Bond Retirement Fund The bond retirement fund is restricted for the accumulation of property tax revenues for, and the payment of, general obligation bonds issued for school improvements.

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

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary fund is a student activities fund which reports resources that belong to the student bodies of the various schools.

Measurement Focus

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

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

Basis of Accounting

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

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 9). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 22.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2017, but which were levied to finance fiscal year 2018 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the reconciliation of total governmental fund balances to net position of governmental activities on page 15. Deferred inflows of resources related to pension are reported on the government-wide statement of net position (See Note 22).

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

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Pensions

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

Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of budgetary control has been established by the Board of Education at the fund level for all School District funds. Budgetary modifications at this level require a resolution of the Board of Education. The Treasurer has been given the authority to allocate Board appropriations to the function and object levels within each fund.

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

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the budgetary statements reflect the final appropriations passed by the Board during the year.

Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

During fiscal year 2017, investments were limited to federal farm credit bank notes, federal home loan mortgage corporation notes, federal home loan bank bonds and 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 School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2017 amounted to \$39,984, which includes \$6,200 assigned from other School District funds.

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

Inventory

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

Deferred Charge on Refunding

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old debt or the life of the new debt, whichever is shorter, using the effective interest method and is presented as deferred outflows of resources on the statement of net position.

Bond Premiums

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the effective interest method. Bond premiums are presented as an increase of the face amount of the bonds payable. On the governmental fund statements, bond premiums are receipted in the year the bonds are issued. Under Ohio law, premiums on the original issuance of debt are to be deposited to the bond retirement fund to be used for debt retirement and are precluded from being applied to the project fund. Ohio law does allow premiums on refunding debt to be used as part of the payment to the bond escrow agent.

Capital Assets

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

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Land Improvements | 20 years |
| Buildings and Improvements | 25 - 50 years |
| Furniture and Equipment | 5 - 15 years |
| Vehicles | 8 years |

Compensated Absences

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

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

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

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employee who has accumulated unpaid leave is paid.

Accrued Liabilities and Long-Term Obligations

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

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

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for athletic programs, food operations, and miscellaneous state and federal grant programs.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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

Interfund Activity

Transfers between governmental activities are eliminated on the government-wide financial statements. Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Interfund payments for services provided and used are not eliminated.

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

Fund Balance

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

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

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

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

Assigned Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance includes the remaining amount that is not restricted or committed. These assigned balances are established by the School District Board of Education. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education delegated that authority by State statute. State statute authorizes the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. The Board assigned fund balances to cover a gap between estimated revenues and appropriations in fiscal year 2018’s 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.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

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

Estimates

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

Note 3 – Change in Accounting Principle

For fiscal year 2017, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*. GASB Statement No. 77 requires disclosure of information about the nature and magnitude of tax abatements. However, the School District had no abatement that met the GASB 77 definition.

The School District also implemented GASB’s *Implementation Guide No. 2016-1*. These changes were incorporated into the School District’s fiscal year 2017 financial statements, however, there was no effect on beginning net position/fund balance.

Note 4 - Fund Balance

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

| Fund Balances | General | Bond Retirement | Other Governmental Funds | Total |
|-------------------------|------------|--------------------|--------------------------------|------------------|
| <i>Restricted for:</i> | | | | |
| College Scholarships | \$0 | \$0 | \$1,161 | \$1,161 |
| Education Foundation | 0 | 0 | 152,315 | 152,315 |
| Athletics and Music | 0 | 0 | 74,925 | 74,925 |
| Non-Public Schools | 0 | 0 | 13,121 | 13,121 |
| Technology | 0 | 0 | 93,777 | 93,777 |
| Debt Service Payments | 0 | 849,133 | 0 | 849,133 |
| Capital Improvements | 0 | 0 | 384,222 | 384,222 |
| <i>Total Restricted</i> | <u>0</u> | <u>849,133</u> | <u>719,521</u> | <u>1,568,654</u> |
| <i>Committed to:</i> | | | | |
| College Scholarships | <u>\$0</u> | <u>\$0</u> | <u>\$78,977</u> | <u>\$78,977</u> |

(continued)

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

| Fund Balances | General | Bond Retirement | Other Governmental Funds | Total |
|---|--------------------|--------------------|--------------------------------|--------------------|
| <i>Assigned to:</i> | | | | |
| Uniform School Supplies | \$58,934 | \$0 | \$0 | \$58,934 |
| Instruction | 28,555 | 0 | 0 | 28,555 |
| Support Services | 86,613 | 0 | 0 | 86,613 |
| Operation of Non-Instructional Services | 128 | 0 | 0 | 128 |
| Capital Outlay | 49,585 | 0 | 0 | 49,585 |
| Fiscal Year 2018 Appropriations | 1,326,075 | 0 | 0 | 1,326,075 |
| <i>Total Assigned</i> | <u>1,549,890</u> | <u>0</u> | <u>0</u> | <u>1,549,890</u> |
| <i>Unassigned (Deficit)</i> | <u>4,377,598</u> | <u>0</u> | <u>(107,434)</u> | <u>4,270,164</u> |
| <i>Total Fund Balances</i> | <u>\$5,927,488</u> | <u>\$849,133</u> | <u>\$691,064</u> | <u>\$7,467,685</u> |

Note 5 – Accountability and Compliance

Accountability

The following funds had deficit fund balances at June 30, 2017:

| | <u>Amount</u> |
|--------------------------------------|---------------|
| <i>Special Revenue Funds:</i> | |
| Food Service | \$50,979 |
| Title VI-B | 28,261 |
| Title I | 22,459 |
| Improving Teacher Quality | 4,584 |
| Preschool Disabilities | 1,100 |
| Title II-D | 51 |

The special revenue funds' deficits are caused by the recognition of expenditures on a modified accrual basis of accounting which are substantially greater than the expenditures recognized on a cash basis. The general fund is liable for any deficits in the funds and provides transfers when cash is required, not when accruals occur.

Compliance

The School District had negative cash balances indicating that revenue from other sources was used to pay the obligations of these funds contrary to Ohio Revised Code Section 5705.10.

| | <u>Amount</u> |
|--------------------------------------|---------------|
| <i>Special Revenue Funds:</i> | |
| Title VI-B | \$57,553 |
| Title I | 3,947 |
| Preschool Disabilities | 2,267 |
| Improving Teacher Quality | 260 |

Management has indicated that cash will be closely monitored to prevent future violations.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 6 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The statement of revenues, expenditures and changes in fund balance - budget (non-GAAP basis) and actual, general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Investments are reported at cost (budget) rather than fair value (GAAP).
4. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. Budgetary revenues and expenditures of the uniform school supplies and cell tower lease funds are classified to the general fund for GAAP reporting.
6. Encumbrances are treated as expenditures (budget) rather than as a restricted, committed or assigned fund balance.

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

| Net Change in Fund Balance | |
|---|---------------------------|
| GAAP Basis | (\$550,274) |
| Net Adjustment for Revenue Accruals | (193,259) |
| Net Adjustment for Expenditure Accruals | 184,078 |
| Beginning Fair Value Adjustment for Investments | 23,115 |
| Ending Fair Value Adjustment for Investments | (4,124) |
| Advances In | 84,300 |
| Perspective Difference: | |
| Uniform School Supplies | (19,454) |
| Cell Tower Lease | (18,000) |
| Encumbrances | <u>(331,953)</u> |
| Budget Basis | <u><u>(\$825,571)</u></u> |

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 7 – Deposits and Investments

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

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

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

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

Interim monies held by the School District can 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;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation and Government National Mortgage 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;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Deposits

Custodial Credit Risk Custodial credit risk for deposits 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 possession of an outside party. At fiscal year end, \$3,374,332 of the School District's bank balance of \$7,645,659 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured. Effective July 1, 2017, the Ohio Pooled Collateral System (OPCS) was implemented by the Office of the Ohio Treasurer of State. Financial institutions can elect to participate in the OPCS and will collateralize at one hundred two percent or a rate set by the Treasurer of State. Financial institution opting not to participate in OPCS will collateralize utilizing the specific pledge method at one hundred five percent.

Investments

Investments are reported at fair value. As of June 30, 2017, the School District had the following investments:

| Measurement/Investment | Measurement Amount | Maturity | Investment Rating | Percent of Total Investments |
|--|-----------------------|-----------------------|----------------------|------------------------------------|
| Net Asset Value Per Share | | | | |
| STAR Ohio | \$437,836 | 45.5 days | AAAm | 42.20 % |
| Fair Value - Level Two Inputs | | | | |
| Federal Farm Credit Bank Notes | 299,549 | Less than three years | Aaa | 28.87 |
| Federal Home Loan Mortgage Corporation Notes | 100,114 | Less than five years | Aa | 9.65 |
| Federal Home Loan Bank Bonds | 199,918 | Less than five years | Aaa | 19.27 |
| Total Fair Value - Level Two Inputs | 599,581 | | | |
| Total Investments | \$1,037,417 | | | |

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the School District's recurring fair value measurements as of June 30, 2017. The Money Market Mutual Fund is measured at fair value and is valued using quoted market prices (Level 1 inputs). The School District's remaining investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs).

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the School District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the School District's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk. The Moody's ratings of the School District's investments are listed in the preceding table. STAR Ohio is listed at Standard & Poor's rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

Concentration of Credit Risk. The School District places no limit on the amount it may invest in any one issuer.

Note 8 - Receivables

Receivables at June 30, 2017, consisted of taxes, accounts, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. All receivables except for delinquent property taxes are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

| | Amount |
|------------------------------------|-----------|
| Ohio Department of Education | \$163,173 |
| IDEA Part B - Special Education | 154,135 |
| Bureau of Workers' Compensation | 36,209 |
| School Employees Retirement System | 33,494 |
| Title I | 18,954 |
| Improving Teacher Quality | 9,571 |
| Total Intergovernmental Receivable | \$415,536 |

Note 9 - Property Taxes

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenues received in calendar year 2017 represent the collection of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed values as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2017, represent the collection of calendar year 2016 taxes. Public utility real and tangible personal property taxes received in calendar year 2017 became a lien on December 31, 2015, were levied after April 1, 2016, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2017, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset to deferred inflows of resources – property taxes.

The amount available as an advance at June 30, 2017 was \$1,103,406 in the general fund, \$130,593 in the bond retirement fund and \$22,268 in the permanent improvement capital projects fund. The amount available as an advance at June 30, 2016 was \$1,097,928 in the general fund, \$74,074 in the bond retirement fund and \$19,557 in the permanent improvement capital projects fund.

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

| | 2016 Second Half Collections | | 2017 First Half Collections | |
|---|---------------------------------|-----------------|--------------------------------|-----------------|
| | Amount | Percent | Amount | Percent |
| Residential/Agricultural and Other Real Estate | \$314,740,860 | 96.24 % | \$294,195,540 | 95.84 % |
| Public Utility Personal | 12,293,330 | 3.76 | 12,779,840 | 4.16 |
| Total | <u>\$327,034,190</u> | <u>100.00 %</u> | <u>\$306,975,380</u> | <u>100.00 %</u> |
| Tax rate per \$1,000 of assessed valuation | \$77.32 | | \$77.58 | |

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the School District. The County Auditor periodically remits to the School District its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes and outstanding delinquencies which are measurable as of June 30, 2017, and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance fiscal year 2017 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual bases the revenue has been reported as deferred inflows of resources – unavailable revenue.

Note 10 – Vacation and Sick Leave

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified and confidential employees earn ten to twenty-five days of vacation per year, depending upon length of service. Upon approval, up to five days may be carried over into the following year. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated with no maximum limit for all certified and classified personnel hired before the 1985-1986 school year. Employees hired after the 1985-1986 school year are limited to 275 days of sick leave. Upon retirement, payment is made for up to 30 days of accumulated sick leave, plus where applicable, one-fourth of accumulated sick leave, days in excess of 120 days, to a maximum of 62 days for certified personnel, and 60 days for classified personnel.

Note 11 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

| | Balance 6/30/2016 | Additions | Deletions | Balance 6/30/2017 |
|---|----------------------|--------------------|------------|----------------------|
| Governmental Activities | | | | |
| <i>Capital Assets, not being depreciated:</i> | | | | |
| Land | \$813,790 | \$0 | \$0 | \$813,790 |
| Construction in Progress | 0 | 51,027 | 0 | 51,027 |
| <i>Total Capital Assets, not being depreciated</i> | <u>813,790</u> | <u>51,027</u> | <u>0</u> | <u>864,817</u> |
| <i>Capital Assets, being depreciated:</i> | | | | |
| Land Improvements | 2,629,292 | 37,339 | 0 | 2,666,631 |
| Buildings and Improvements | 20,779,949 | 98,150 | 0 | 20,878,099 |
| Furniture and Equipment | 481,069 | 43,869 | 0 | 524,938 |
| Vehicles | 1,636,659 | 85,930 | 0 | 1,722,589 |
| <i>Total Capital Assets, being depreciated</i> | <u>25,526,969</u> | <u>265,288</u> | <u>0</u> | <u>25,792,257</u> |
| <i>Less Accumulated Depreciation:</i> | | | | |
| Land Improvements | (1,257,457) | (105,481) | 0 | (1,362,938) |
| Buildings and Improvements | (6,204,092) | (399,920) | 0 | (6,604,012) |
| Furniture and Equipment | (310,677) | (24,930) | 0 | (335,607) |
| Vehicles | (1,179,092) | (125,862) | 0 | (1,304,954) |
| <i>Total Accumulated Depreciation</i> | <u>(8,951,318)</u> | <u>(656,193) *</u> | <u>0</u> | <u>(9,607,511)</u> |
| <i>Total Capital Assets, being depreciated, net</i> | <u>16,575,651</u> | <u>(390,905)</u> | <u>0</u> | <u>16,184,746</u> |
| Governmental Activities Capital Assets, Net | <u>\$17,389,441</u> | <u>(\$339,878)</u> | <u>\$0</u> | <u>\$17,049,563</u> |

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

*Depreciation expense was charged to governmental functions as follows:

| | | |
|-----------------------------------|------------------|--|
| Instruction: | | |
| Regular | \$489,681 | |
| Support Services: | | |
| Board of Education | 5,723 | |
| Administration | 11,731 | |
| Operation of Plant | 7,509 | |
| Pupil Transportation | 133,573 | |
| Food Service Operations | 416 | |
| Extracurricular Activities | 7,560 | |
| <i>Total Depreciation Expense</i> | <i>\$656,193</i> | |

Note 12 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the School District contracted with Liberty Mutual Insurance Co. for various types of insurance. Coverage is as follows:

| Coverage | Amount |
|--|--------------|
| Blanket Building and Contents (\$1,000 Deductible) | \$44,671,483 |
| Extra Expense Coverage | 1,000,000 |
| Crime | 250,000 |
| General Liability | 11,000,000 |
| Employee Benefits Liability | 11,000,000 |
| Employer's Liability | 11,000,000 |
| School Leader's Errors and Omissions Liability | 11,000,000 |
| Sexual Misconduct and Molestation | 11,000,000 |
| Fleet | 11,000,000 |
| Uninsured Motorists | 1,000,000 |
| Boiler and Machinery | 44,671,483 |
| Violence Coverage | 1,000,000 |

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

All employees of the School District are covered by a blanket bond, while certain individuals in policy making roles are covered by separate, higher limit bond coverage.

Employee Medical Coverage

The School District has elected to provide medical coverage through the Lake County Schools Health Care Consortium (Note 18).

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Workers' Compensation

For fiscal year 2017, the School District participated in the Ohio School Boards' Association Workers' Compensation Group Retro-Rating Program (GRP), an insurance purchasing pool (Note 20). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management Health Systems Incorporated, provides administrative, cost control and actuarial services to the GRP.

Litigation

As of June 30, 2017, the School District was not party to any legal proceedings.

Note 13 – Interfund Transactions

Interfund Balances

Interfund balances at June 30, 2017, consist of the following individual fund receivables and payables:

| <u>Interfund Payable</u> | <u>Interfund Receivable</u> |
|----------------------------------|---------------------------------|
| | <u>General</u> |
| Other Governmental Funds: | |
| Title VI-B | \$85,818 |
| Title I | 18,947 |
| Title VI-R | 7,260 |
| Preschool Disabilities | 2,267 |
| Preschool | 1,100 |
| Title II-D | 51 |
| Total | \$115,443 |

The interfund payables are advances for grant monies that were not received by fiscal year end and were to support programs and projects in the special revenue funds. Advances will be repaid within one year.

Note 14 - Contingencies

Grants

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

School Foundation

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2017, Foundation funding for the School District; therefore, any financial statement impact is not determinable at this time. ODE and management believe this may result in either a receivable to or a liability of the School District.

Note 15 – Long-Term Obligations

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

| | Principal Outstanding 6/30/16 | Additions | Deductions | Principal Outstanding 6/30/17 | Amounts Due in One Year |
|--|-------------------------------------|--------------------|--------------------|-------------------------------------|-------------------------------|
| Governmental Activities | | | | | |
| General Obligation Bonds: | | | | | |
| 2007 School Improvement Bonds 4%-12.994% | | | | | |
| Current Interest Serial Bonds | \$70,000 | \$0 | \$70,000 | \$0 | \$0 |
| 2013 School Improvement Refunding Bonds 1.25 - 3.00% | | | | | |
| Current Interest Serial Bonds | 8,340,000 | 0 | 100,000 | 8,240,000 | 115,000 |
| Capital Appreciation Bonds | 14,992 | 0 | 0 | 14,992 | 0 |
| Accretion on Capital Appreciation Bonds | 41,951 | 31,350 | 0 | 73,301 | 0 |
| Premium on Bonds | 1,015,473 | 0 | 56,808 | 958,665 | 0 |
| 2016 School Improvement Refunding Bonds 3.56% | | | | | |
| Current Interest Serial Bonds | 4,525,000 | 0 | 440,000 | 4,085,000 | 550,000 |
| Premium on Bonds | 260,284 | 0 | 18,592 | 241,692 | 0 |
| Total General Obligation Bonds | 14,267,700 | 31,350 | 685,400 | 13,613,650 | 665,000 |
| Compensated Absences | 1,003,795 | 695,894 | 400,312 | 1,299,377 | 85,577 |
| Net Pension Liability | | | | | |
| SERS | 3,644,256 | 540,478 | 0 | 4,184,734 | 0 |
| STRS | 17,486,068 | 4,153,017 | 0 | 21,639,085 | 0 |
| Total Net Pension Liability | 21,130,324 | 4,693,495 | 0 | 25,823,819 | 0 |
| Total Governmental Activities Long-Term Liabilities | \$36,401,819 | \$5,420,739 | \$1,085,712 | \$40,736,846 | \$750,577 |

On March 21, 2007, the School District issued \$1,895,000 in general obligation bonds which included serial, term and capital appreciation (deep discount) bonds in the amounts of \$595,000, \$1,160,000 and \$140,000, respectively, at interest rates varying from 4 to 12.994 percent. The bonds were issued for a twenty-two year period with final maturity at December 1, 2029. A portion of the serial bonds and the remaining term bonds were refunded during fiscal year 2016. The final bond payment was retired from the debt service fund in fiscal year 2017.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

On May 16, 2013, the School District issued \$8,599,992 in general obligation bonds which included serial and capital appreciation (deep discount) bonds, to partially refund bonds previously issued in 2006 for school improvements in the amount of \$8,600,000. The bonds were issued with interest rates varying from 1.25 to 3 percent. The proceeds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the School District's financial statements. On June 30, 2017, \$6,450,000 of the defeased bonds are still outstanding. The bonds were issued for a 20 year period with final maturity during fiscal year 2034. The bonds will be retired through the bond retirement fund.

The final maturity amount of outstanding capital appreciation bonds is \$375,000. The accretion recorded for fiscal year 2017 was \$31,350, for a total outstanding bond liability of \$88,293.

On October 22, 2015, the School District issued \$4,525,000 in general obligation serial bonds to partially refund bonds previously issued in 2006 and 2007 for school improvements in the amounts of \$3,390,000 and \$1,235,000, respectively. The bonds were issued with a fixed interest rate of 3.56 percent. The proceeds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the School District's financial statements. On June 30, 2017, \$4,165,000 of the defeased bonds are still outstanding. The bonds were issued for a 15 year period with final maturity during fiscal year 2030. The bonds will be retired through the bond retirement fund.

The School District's overall legal debt margin at June 30, 2017 was \$16,063,624 with an unvoted debt margin of \$306,975. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2017, are as follows:

| | General Obligation Bonds | | | |
|-----------|--------------------------|-------------|----------------------|-------------|
| | Serial | | Capital Appreciation | |
| | Principal | Interest | Principal | Interest |
| 2018 | \$665,000 | \$515,386 | \$0 | \$0 |
| 2019 | 675,000 | 495,628 | 0 | 0 |
| 2020 | 700,000 | 475,247 | 0 | 0 |
| 2021 | 725,000 | 453,976 | 0 | 0 |
| 2022 | 745,000 | 431,993 | 0 | 0 |
| 2023-2027 | 2,630,000 | 1,756,443 | 14,992 | 1,445,008 |
| 2028-2032 | 4,390,000 | 865,652 | 0 | 0 |
| 2033-2034 | 1,795,000 | 81,251 | 0 | 0 |
| Total | \$12,325,000 | \$5,075,576 | \$14,992 | \$1,445,008 |

Compensated absences will be paid from the general, food service and title I special revenue funds. There is no repayment schedule for the net pension liability. However, employer pension contributions are made from the general fund and title I special revenue fund. For additional information related to the net pension liability see Note 22.

Note 16 - Set Asides

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

The following cash basis information describes the changes in the year-end set-aside amounts for capital acquisitions. Disclosure of this information is required by the State statute.

| | Capital Improvements |
|--|-------------------------|
| Set-aside Balance as of June 30, 2016 | \$0 |
| Current Year Set-aside Requirement | 204,357 |
| Current Year Offsets | (226,646) |
| Qualifying Disbursements | (180,321) |
| Totals | (\$202,610) |
| Set-aside Balance Carried Forward to Future Fiscal Years | \$0 |
| Set-aside Balance as of June 30, 2017 | \$0 |

Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years. This negative balance is therefore not presented as being carried forward to future years.

Note 17 - Jointly Governed Organizations

Lake Geauga Computer Association - The Lake Geauga Computer Association (LGCA) is a jointly governed organization that was formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications to its 19 member school districts. Each of the participants supports LGCA based upon a per pupil charge. The executive committee (governing board) consists of the superintendents and treasurers of the participants. The LGCA's governing board's exercises total control over the operations of the NCC including budgeting, appropriating, contracting and designating management. Each participant's degree of control is limited to its representation on the Board. LGCA's continued existence is not dependent upon the School District's continued participation. In fiscal year 2017, the School District paid \$60,899 to the LGCA. Financial information can be obtained by writing the Lake Geauga Computer Association, 8221 Auburn Road, Concord Township, Ohio 44077.

Auburn Career Center - The Auburn Career Center is a joint vocational school operated by eleven school districts. Each participating school district appoints one board member to the Auburn Career Center's Board of Education. The students of each participating school district may attend classes offered at the vocational facility. The Board exercises total control over the operations of the Auburn Career Center including budgeting, appropriating, contracting and designating management. Each participant's degree of control is limited to its representation on the Board. Continued existence of the Auburn Career Center is not dependent on the School District's continued participation. Financial information can be obtained from the Auburn Career Center, 8140 Auburn Road, Concord Township, Ohio 44077.

Ohio Schools Council Association - The Ohio Schools Council (Council) is a jointly governed organization among 200 members. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each district supports the Council by paying an annual participation fee. Each school district member's superintendent serves as a representative of the Assembly. The degree of control exercised by any participating school district is limited to its representation on the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Board meets monthly September to June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. The Assembly exercises total control over the operations of the Ohio Schools Council including budgeting, appropriating, contracting and designating management. Each participant's degree of control is limited to its representation on the Board. In fiscal year 2017, the School District paid \$2,079 to the Council. Financial information can be obtained by contacting William Zelei, the Executive Director of the Ohio Schools Council at 6393 Oak Tree Boulevard, Suite 377, Independence, Ohio 44131.

The School District participates in the natural gas purchase program. This program allows the School District to purchase natural gas at reduced rates. Compass Energy serves as the new supplier and program manager for the period from April 1, 2017 through March 31, 2019. There are currently 154 participants in the program. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). Districts that paid more in estimated billings than their actual billings are issued credits on future billings in September until the credits are exhausted and districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

Note 18 – Claims Servicing Pool

The School District participates in the Lake County Schools Health Care Consortium (Consortium), a claims servicing pool comprised of nine Lake County school districts. Each school district has a representative on the assembly (usually the superintendent or designee). Each member pays an administrative fee to the pool. The plan's business and affairs are conducted by a five member Board of Directors elected by the Consortium's assembly. The assembly elects officers for one year terms to serve on the Board of Directors. The Consortium acts solely as the claims servicing agent. Financial information can be obtained from Mike Vaccariello, Treasurer, Madison Local School District, 1956 Red Bird Road, Madison, OH 44057.

Note 19 - Related Organization

The Kirtland Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Kirtland Local School District's Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and issues tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Kirtland Public Library, Amy Dawson, Fiscal Officer, at 9267 Chillicothe Road, Kirtland, Ohio 44094.

Note 20 - Insurance Purchasing Pool

The School District participates in the Ohio School Boards' Association (OSBA) Workers' Compensation Group Retro-Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of OSBA. The Director of OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Kirtland Local School District
Notes to the Basic Financial Statements
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Note 21 - Encumbrances

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

| | |
|--------------------------|-------------------------|
| General | \$331,953 |
| Other Governmental Funds | <u>180,133</u> |
| Totals | <u><u>\$512,086</u></u> |

Note 22 - Defined Benefit Pension Plans

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

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

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

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

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

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School District’s contractually required contribution to SERS was \$238,009 for fiscal year 2017. Of this amount \$15,282 is reported as an intergovernmental payable.

Kirtland Local School District
Notes to the Basic Financial Statements
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Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 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 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent 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 to 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.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The statutory member contribution rate was increased one percent to 14 percent on July 1, 2016. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$984,468 for fiscal year 2017. Of this amount \$203,678 is reported as an intergovernmental payable.

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

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

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|---|---------------------|--------------------|--------------|
| Proportion of the Net Pension Liability Prior Measurement Date | 0.06386600% | 0.06327032% | |
| Proportion of the Net Pension Liability Current Measurement Date | <u>0.05717570%</u> | <u>0.06464636%</u> | |
| Change in Proportionate Share | <u>-0.00669030%</u> | <u>0.00137604%</u> | |
| Proportionate Share of the Net Pension Liability | \$4,184,734 | \$21,639,085 | \$25,823,819 |
| Pension Expense | \$316,538 | \$1,960,944 | \$2,277,482 |

At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|------------------|--------------------|--------------------|
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | \$56,442 | \$874,323 | \$930,765 |
| Changes of assumptions | 279,354 | 0 | 279,354 |
| Net difference between projected and actual earnings on pension plan investments | 345,180 | 1,796,626 | 2,141,806 |
| Changes in proportionate Share and difference between School District contributions and proportionate share of contributions | 0 | 815,259 | 815,259 |
| School District contributions subsequent to the measurement date | <u>238,009</u> | <u>984,468</u> | <u>1,222,477</u> |
| Total Deferred Outflows of Resources | <u>\$918,985</u> | <u>\$4,470,676</u> | <u>\$5,389,661</u> |
| Deferred Inflows of Resources | | | |
| Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions | <u>\$314,640</u> | <u>\$0</u> | <u>\$314,640</u> |

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

\$1,222,477 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| Fiscal Year Ending June 30: | SERS | STRS | Total |
|-----------------------------|-----------|-------------|-------------|
| 2018 | \$51,724 | \$670,112 | \$721,836 |
| 2019 | 51,475 | 670,113 | 721,588 |
| 2020 | 163,912 | 1,359,527 | 1,523,439 |
| 2021 | 99,225 | 786,456 | 885,681 |
| Total | \$366,336 | \$3,486,208 | \$3,852,544 |

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, compared with June 30, 2015, are presented below:

| | June 30, 2016 | June 30, 2015 |
|--|--|--|
| Wage Inflation | 3.00 percent | 3.25 percent |
| Future Salary Increases, including inflation | 3.50 percent to 18.20 percent | 4.00 percent to 22.00 percent |
| COLA or Ad Hoc COLA | 3 percent | 3 percent |
| Investment Rate of Return | 7.50 percent net of investments expense, including inflation | 7.75 percent net of investments expense, including inflation |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal |

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

For 2016, the mortality assumptions are that 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. For 2015, the mortality assumptions were based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were 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 by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

| 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 | 100.00 % | |

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. A discount rate of 7.75 percent was used in the prior measurement period. 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 School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 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%) |
|---|------------------------|-------------------------------------|------------------------|
| School District's proportionate share of the net pension liability | \$5,540,327 | \$4,184,734 | \$3,050,046 |

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|-----------------------------------|---|
| Inflation | 2.75 percent |
| Salary increases | 12.25 percent at age 20 to 2.75 percent at age 70 |
| Investment Rate of Return | 7.75 percent, net of investment expenses, including inflation |
| Cost-of-Living Adjustments (COLA) | 2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date. |

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set back two years through age 89 and no set back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS' 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 Rate of Return *</u> |
|----------------------|--------------------------|--|
| Domestic Equity | 31.00 % | 8.00 % |
| International Equity | 26.00 | 7.85 |
| Alternatives | 14.00 | 8.00 |
| Fixed Income | 18.00 | 3.75 |
| Real Estate | 10.00 | 6.75 |
| Liquidity Reserves | 1.00 | 3.00 |
| Total | 100.00 % | 7.61 % |

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent, and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are excluded. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

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

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|------------------------|-------------------------------------|------------------------|
| School District's proportionate share of the net pension liability | \$28,756,586 | \$21,639,085 | \$16,635,054 |

Changes between Measurement Date and Report Date

In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to School District's NPL is expected to be significant.

Note 23 - Postemployment Benefits

School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrator and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. 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.

Kirtland Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. 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 2017, no allocation 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 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the School District's surcharge obligation was \$26,608.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$26,608, \$28,352, and \$49,836, respectively. The full amount has been contributed for fiscal years 2017, 2016 and 2015.

State Teachers Retirement System (STRS)

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2017, June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care.

Required Supplementary Information

Kirtland Local School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
*Last Four Fiscal Years (1)**

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|-------------|-------------|
| School District's Proportion of the Net Pension Liability | 0.05717570% | 0.06386600% | 0.06459500% | 0.06459500% |
| School District's Proportionate Share of the Net Pension Liability | \$4,184,734 | \$3,644,256 | \$3,269,116 | \$3,841,257 |
| School District's Covered Payroll | \$1,770,100 | \$1,815,986 | \$1,884,595 | \$1,889,511 |
| School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 236.41% | 200.68% | 173.47% | 203.29% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 62.98% | 71.70% | 71.70% | 65.52% |

(1) Although this schedule is intended to show information for ten years, information prior to 2014 is not available. An additional column will be added each year.

*Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

Kirtland Local School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
*Last Four Fiscal Years (1)**

| | 2017 | 2016 | 2015 | 2014 |
|---|--------------|--------------|--------------|--------------|
| School District's Proportion of the Net Pension Liability | 0.06464636% | 0.06327032% | 0.06026351% | 0.06026351% |
| School District's Proportionate Share of the Net Pension Liability | \$21,639,085 | \$17,486,068 | \$14,658,172 | \$17,460,718 |
| School District's Covered Payroll | \$6,772,036 | \$5,954,579 | \$5,884,615 | \$6,314,408 |
| School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 301.60% | 293.66% | 249.09% | 276.52% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 66.80% | 74.70% | 74.70% | 69.30% |

(1) Although this schedule is intended to show information for ten years, information prior to 2014 is not available. An additional column will be added each year.

*Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|------------------|------------------|------------------|------------------|
| Contractually Required Contribution | \$238,009 | \$247,814 | \$239,347 | \$261,205 |
| Contributions in Relation to the Contractually Required Contribution | <u>(238,009)</u> | <u>(247,814)</u> | <u>(239,347)</u> | <u>(261,205)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| School District Covered Payroll | \$1,700,064 | \$1,770,100 | \$1,815,986 | \$1,884,595 |
| Contributions as a Percentage of Covered Payroll | 14.00% | 14.00% | 13.18% | 13.86% |

| <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$261,508 | \$282,179 | \$257,339 | \$260,424 | \$178,410 | \$176,914 |
| <u>(261,508)</u> | <u>(282,179)</u> | <u>(257,339)</u> | <u>(260,424)</u> | <u>(178,410)</u> | <u>(176,914)</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$1,889,511 | \$2,097,984 | \$2,047,248 | \$1,923,365 | \$1,813,113 | \$1,801,572 |
| 13.84% | 13.45% | 12.57% | 13.54% | 9.84% | 9.82% |

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

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|------------------|------------------|------------------|------------------|
| Contractually Required Contribution | \$984,468 | \$948,085 | \$833,641 | \$765,600 |
| Contributions in Relation to the Contractually Required Contribution | <u>(984,468)</u> | <u>(948,085)</u> | <u>(833,641)</u> | <u>(765,600)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| School District Covered Payroll | \$7,031,914 | \$6,772,036 | \$5,954,579 | \$5,884,615 |
| Contributions as a Percentage of Covered Payroll | 14.00% | 14.00% | 14.00% | 13.00% |

| <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$820,873 | \$662,091 | \$847,894 | \$852,015 | \$793,739 | \$760,136 |
| <u>(820,873)</u> | <u>(662,091)</u> | <u>(847,894)</u> | <u>(852,015)</u> | <u>(793,739)</u> | <u>(760,136)</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$6,314,408 | \$5,093,008 | \$6,522,262 | \$6,553,962 | \$6,105,685 | \$5,847,200 |
| 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |

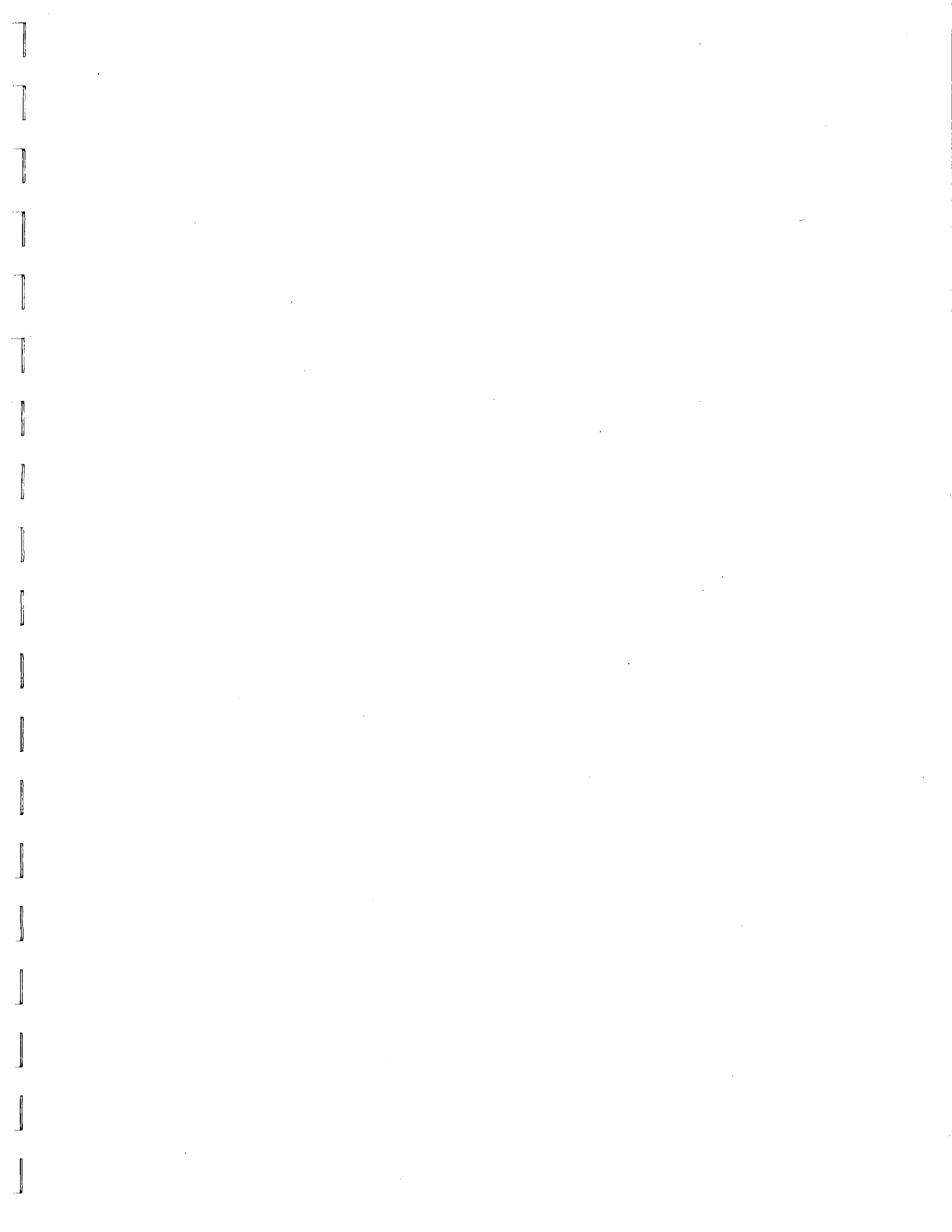
Kirtland School District, Ohio
Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2017

Changes in Assumptions - SERS

Amounts reported for fiscal year 2017 incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2016 and prior are presented below:

| | Fiscal Year 2017 | Fiscal Year 2016 and Prior |
|---|---|---|
| Wage Inflation | 3.00 percent | 3.25 percent |
| Future Salary Increases, including inflation | 3.50 percent to 18.20 percent | 4.00 percent to 22.00 percent |
| Investment Rate of Return | 7.50 percent net of investments expense, including inflation | 7.75 percent net of investments expense, including inflation |

Amounts reported for fiscal year 2017 use mortality assumptions with mortality rates that are 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. Amounts reported for fiscal year 2016 and prior, use mortality assumptions that are based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.





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