



Dave Yost • Auditor of State

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

**General Purpose External Financial Statements
For the Fiscal Year Ended June 30, 2016**

Local Government Services Section



Kirtland Local School District
Basic Financial Statements
For the Fiscal Year Ended June 30, 2016
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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, 2016, 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

November 23, 2016

Kirtland Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
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, 2016. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the 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 2016 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 2016, 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.
- During fiscal year 2016, the School District successfully passed a 1.1 mill permanent improvement renewal levy.

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.

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

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 2016?" 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.

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
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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 2016 compared to 2015.

Table 1
Net Position

	Governmental Activities		
	2016	2015	Change
Assets			
Current and Other Assets	\$20,806,778	\$21,128,983	(\$322,205)
Capital Assets, Net	17,389,441	17,628,464	(239,023)
Total Assets	38,196,219	38,757,447	(561,228)
Deferred Outflows of Resources			
Deferred Charge on Refunding Pension	1,069,151	981,644	87,507
	2,858,208	1,241,929	1,616,279
Total Deferred Outflows of Resources	3,927,359	2,223,573	1,703,786
Liabilities			
Current Liabilities	1,903,061	1,974,735	71,674
Long-Term Liabilities:			
Due Within One Year	722,227	704,975	(17,252)
Due in More than One Year:			
Net Pension Liability	21,130,324	17,927,288	(3,203,036)
Other Amounts Due in More Than One Year	14,549,268	14,940,596	391,328
Total Liabilities	38,304,880	35,547,594	(2,757,286)
Deferred Inflows of Resources			
Property Taxes	11,136,470	10,945,211	(191,259)
Pension	1,421,677	3,242,404	1,820,727
Total Deferred Inflows of Resources	12,558,147	14,187,615	1,629,468
Net Position			
Net Investment in Capital Assets	4,232,843	3,929,408	303,435
Restricted For:			
Debt Service	490,685	481,322	9,363
Capital Projects	291,925	270,128	21,797
Other Purposes	267,403	1,021,403	(754,000)
Unrestricted (Deficit)	(14,022,305)	(14,456,450)	434,145
Total Net Position	(\$8,739,449)	(\$8,754,189)	\$14,740

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2016 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
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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.

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

Table 2 shows the changes in net position for fiscal years 2016 compared to 2015.

Table 2
 Changes in Position
 Governmental Activities

	2016	2015	Change
Revenues			
Program Revenues:			
Charges for Services	\$508,923	\$721,242	(\$212,319)
Operating Grants and Contributions	633,318	2,345,407	(1,712,089)
<i>Total Program Revenues</i>	<u>1,142,241</u>	<u>3,066,649</u>	<u>(1,924,408)</u>
General Revenues:			
Property Taxes	12,962,917	12,856,065	106,852
Grant and Entitlements	2,542,736	2,717,612	(174,876)
Unrestricted Contributions and Donations	37,505	36,587	918
Investment Earnings	46,423	66,044	(19,621)
Miscellaneous	286,789	101,380	185,409
<i>Total General Revenues</i>	<u>15,876,370</u>	<u>15,777,688</u>	<u>98,682</u>
<i>Total Revenues</i>	<u>17,018,611</u>	<u>18,844,337</u>	<u>(1,825,726)</u>
Program Expenses			
Instruction	9,174,154	9,377,243	203,089
Support Services:			
Pupil	1,236,917	1,098,570	(138,347)
Instructional Staff	426,023	475,776	49,753
Board of Education	175,406	212,225	36,819
Administration	975,240	1,113,190	137,950
Fiscal	647,740	453,492	(194,248)
Business	25,780	15,622	(10,158)
Operation and Maintenance of Plant	1,391,650	1,416,043	24,393
Pupil Transportation	1,265,205	1,204,245	(60,960)
Central	195,328	154,261	(41,067)
Operation of Non-Instructional Services:			
Food Service Operations	259,585	321,231	61,646
Extracurricular Activities	855,607	807,561	(48,046)
Interest and Fiscal Charges	375,236	540,401	165,165
<i>Total Program Expenses</i>	<u>17,003,871</u>	<u>17,189,860</u>	<u>185,989</u>
<i>Change in Net Position</i>	14,740	1,654,477	(1,639,737)
<i>Net Position Beginning of Year</i>	<u>(8,754,189)</u>	<u>(10,408,666)</u>	<u>1,654,477</u>
<i>Net Position End of Year</i>	<u><u>(\$8,739,449)</u></u>	<u><u>(\$8,754,189)</u></u>	<u><u>\$14,740</u></u>

Kirtland Local School District
Management's Discussion and Analysis
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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 \$12,962,917 in fiscal year 2016. 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 significantly during fiscal year 2016 as the School District did not participate in the Straight A grant program for fiscal year 2016. The combination of taxes and intergovernmental funding along with substantial beginning net position 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 53.95 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 8.18 percent of expenses for fiscal year 2016. Overall, expenses decreased during fiscal year 2016 due to the School District diligently monitoring their budgets and limiting spending.

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 2016 and 2015. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
 Governmental Activities

	2016		2015	
	Total Cost Of Services	Net Cost of Services	Total Cost Of Services	Net Cost of Services
Instruction	\$9,174,154	(\$8,633,254)	\$9,377,243	(\$7,034,907)
Support Services:				
Pupil	1,236,917	(1,214,187)	1,098,570	(1,067,802)
Instructional Staff	426,023	(426,023)	475,776	(475,776)
Board of Education	175,406	(175,406)	212,225	(212,225)
Administration	975,240	(975,240)	1,113,190	(1,113,190)
Fiscal	647,740	(647,740)	453,492	(453,492)
Business	25,780	(25,780)	15,622	(15,622)
Operation and Maintenance of Plant	1,391,650	(1,377,887)	1,416,043	(1,400,145)
Pupil Transportation	1,265,205	(1,265,205)	1,204,245	(1,204,245)
Central	195,328	(189,928)	154,261	(148,861)
Operation of Non-Instructional Services:				
Food Service Operations	259,585	(20,856)	321,231	(96,578)
Extracurricular Activities	855,607	(534,888)	807,561	(359,967)
Interest and Fiscal Charges	375,236	(375,236)	540,401	(540,401)
Total Expenses	\$17,003,871	(\$15,861,630)	\$17,189,860	(\$14,123,211)

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

The dependence upon general revenues for governmental activities is apparent. 76.24 percent of total expenses are supported through taxes. Program revenues support 6.72 percent of expenses. Grants and entitlements not restricted to specific programs, investments, and other miscellaneous type revenues support the remaining expenses.

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 \$17,881,121 and expenditures of \$17,416,871.

The general fund had an increase in fund balance of \$208,720 for fiscal year 2016, due to an increase in property tax revenues as well as prudent spending by the School District. The bond retirement debt service fund had a decrease in fund balance of \$353.

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 2016, 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 \$592,715 under actual revenues. Final budgeted expenditures were \$14,885,307, while actual expenditures were \$14,447,432. Final budget expenditures were \$146,246 less 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 2016 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	
	2016	2015
Land	\$813,790	\$813,790
Construction in Progress	0	108,331
Land Improvements	1,371,835	1,381,913
Buildings and Improvements	14,575,857	14,749,609
Furniture and Equipment	170,392	172,537
Vehicles	457,567	402,284
Total	\$17,389,441	\$17,628,464

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

Debt

At June 30, 2016, the School District had \$14,267,700 in bonds outstanding with \$610,000 due within one year. Table 5 summarizes general obligation bonds outstanding for governmental activities for fiscal years 2016 and 2015.

Table 5
 Outstanding Debt at June 30

	2016	2015
2006 School Improvement Bonds	\$0	\$3,825,000
2007 School Improvement Bonds	70,000	1,370,728
2013 School Improvement Refunding Bonds	9,412,416	9,549,006
2016 School Improvement Refunding Bonds	4,785,284	0
Total Debt	\$14,267,700	\$14,744,734

During fiscal year 2016, the School District issued \$4,525,000 in general obligation 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. 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 76.17 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 2012 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 2012 operating levy. The Board of Education will request community support in renewing the operating levy in 2017.

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, 2016

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$7,973,095
Accrued Interest Receivable	14,166
Accounts Receivable	37,635
Intergovernmental Receivable	181,648
Property Taxes Receivable	12,600,234
Nondepreciable Capital Assets	813,790
Depreciable Capital Assets, Net	<u>16,575,651</u>
<i>Total Assets</i>	<u>38,196,219</u>
Deferred Outflows of Resources	
Deferred Charge on Refunding	1,069,151
Pension	<u>2,858,208</u>
<i>Total Deferred Outflows of Resources</i>	<u>3,927,359</u>
Liabilities	
Accounts Payable	52,137
Accrued Wages and Benefits	1,432,228
Intergovernmental Payable	267,808
Accrued Interest Payable	32,687
Accrued Vacation Leave Payable	83,701
Unearned Revenue	34,500
Long-Term Liabilities:	
Due Within One Year	722,227
Due In More Than One Year:	
Net Pension Liability (See Note 22)	21,130,324
Other Amounts Due in More Than One Year	<u>14,549,268</u>
<i>Total Liabilities</i>	<u>38,304,880</u>
Deferred Inflows of Resources	
Property Taxes	11,136,470
Pension	<u>1,421,677</u>
<i>Total Deferred Inflows of Resources</i>	<u>12,558,147</u>
Net Position	
Net Investment in Capital Assets	4,232,843
Restricted for:	
Debt Service	490,685
Capital Projects	291,925
Other Purposes	267,403
Unrestricted (Deficit)	<u>(14,022,305)</u>
<i>Total Net Position</i>	<u><u>(\$8,739,449)</u></u>

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, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$7,422,113	\$129,256	\$61,948	(\$7,230,909)
Special	1,652,934	0	349,530	(1,303,404)
Vocational	82,913	0	166	(82,747)
Student Intervention Services	16,194	0	0	(16,194)
Support Services:				
Pupil	1,236,917	0	22,730	(1,214,187)
Instructional Staff	426,023	0	0	(426,023)
Board of Education	175,406	0	0	(175,406)
Administration	975,240	0	0	(975,240)
Fiscal	647,740	0	0	(647,740)
Business	25,780	0	0	(25,780)
Operation and Maintenance of Plant	1,391,650	13,763	0	(1,377,887)
Pupil Transportation	1,265,205	0	0	(1,265,205)
Central	195,328	0	5,400	(189,928)
Food Service Operations	259,585	114,775	123,954	(20,856)
Extracurricular Activities	855,607	251,129	69,590	(534,888)
Interest and Fiscal Charges	375,236	0	0	(375,236)
Totals	\$17,003,871	\$508,923	\$633,318	(15,861,630)
General Revenues				
Property Taxes Levied for:				
General Purposes				11,815,014
Debt Service				918,096
Capital Projects				229,807
Grants and Entitlements not Restricted to Specific Programs				2,542,736
Unrestricted Contributions and Donations				37,505
Investment Earnings				46,423
Miscellaneous				286,789
Total General Revenues				15,876,370
Change in Net Position				14,740
<i>Net Position Beginning of Year</i>				<u>(8,754,189)</u>
<i>Net Position End of Year</i>				<u><u>(\$8,739,449)</u></u>

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

Kirtland Local School District

Balance Sheet

Governmental Funds

June 30, 2016

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$6,916,016	\$431,267	\$625,812	\$7,973,095
Accrued Interest Receivable	14,166	0	0	14,166
Accounts Receivable	37,285	0	350	37,635
Intergovernmental Receivable	32,941	0	148,707	181,648
Interfund Receivable	135,716	0	0	135,716
Property Taxes Receivable	<u>11,509,488</u>	<u>865,635</u>	<u>225,111</u>	<u>12,600,234</u>
<i>Total Assets</i>	<u>\$18,645,612</u>	<u>\$1,296,902</u>	<u>\$999,980</u>	<u>\$20,942,494</u>
 Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
Accounts Payable	\$33,876	\$0	\$18,261	\$52,137
Accrued Wages and Benefits	1,425,039	0	7,189	1,432,228
Interfund Payable	0	0	135,716	135,716
Intergovernmental Payable	262,875	0	4,933	267,808
Unearned Revenue	<u>34,500</u>	<u>0</u>	<u>0</u>	<u>34,500</u>
<i>Total Liabilities</i>	<u>1,756,290</u>	<u>0</u>	<u>166,099</u>	<u>1,922,389</u>
 Deferred Inflows of Resources				
Property Taxes	10,162,468	773,530	200,472	11,136,470
Unavailable Revenue	<u>249,092</u>	<u>18,031</u>	<u>73,234</u>	<u>340,357</u>
<i>Total Deferred Inflows of Resources</i>	<u>10,411,560</u>	<u>791,561</u>	<u>273,706</u>	<u>11,476,827</u>
 Fund Balances				
Restricted	0	505,341	537,095	1,042,436
Committed	0	0	79,870	79,870
Assigned	1,553,693	0	0	1,553,693
Unassigned (Deficit)	<u>4,924,069</u>	<u>0</u>	<u>(56,790)</u>	<u>4,867,279</u>
<i>Total Fund Balances</i>	<u>6,477,762</u>	<u>505,341</u>	<u>560,175</u>	<u>7,543,278</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$18,645,612</u>	<u>\$1,296,902</u>	<u>\$999,980</u>	<u>\$20,942,494</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, 2016*

Total Governmental Fund Balances		\$7,543,278
<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.		17,389,441
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue.		
Delinquent Property Taxes	272,205	
Intergovernmental	68,152	
Total		340,357
Deferred outflows of resources represent deferred charges on refundings, which are not reported in the funds.		1,069,151
Long-term liabilities payable are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	(14,267,700)	
Compensated Absences Payable	(1,003,795)	
Total		(15,271,495)
Accrued interest payable is not due and payable in the current period and therefore not reported in the funds.		(32,687)
Vacation benefits payable is not expected to be paid with expendable available financial resources and therefore is not reported in the funds.		(83,701)
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	2,858,208	
Net Pension Liability	(21,130,324)	
Deferred Inflows - Pension	(1,421,677)	
Total		(19,693,793)
<i>Net Position of Governmental Activities</i>		(\$8,739,449)

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, 2016

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$11,745,007	\$916,218	\$228,694	\$12,889,919
Intergovernmental	2,443,731	137,810	1,432,888	4,014,429
Interest	45,978	373	72	46,423
Tuition and Fees	125,298	0	0	125,298
Extracurricular Activities	50,131	0	200,998	251,129
Contributions and Donations	37,305	0	92,961	130,266
Charges for Services	3,958	0	114,775	118,733
Rentals	13,763	0	0	13,763
Miscellaneous	234,123	0	57,038	291,161
Total Revenues	<u>14,699,294</u>	<u>1,054,401</u>	<u>2,127,426</u>	<u>17,881,121</u>
Expenditures				
Current:				
Instruction:				
Regular	6,454,025	0	568,641	7,022,666
Special	1,410,637	0	258,767	1,669,404
Vocational	82,913	0	0	82,913
Student Intervention Services	19,899	0	0	19,899
Support Services:				
Pupil	1,221,200	0	3,321	1,224,521
Instructional Staff	332,992	0	96,128	429,120
Board of Education	169,683	0	0	169,683
Administration	975,691	0	3,393	979,084
Fiscal	534,246	107,139	5,889	647,274
Business	25,780	0	0	25,780
Operation and Maintenance of Plant	1,236,154	0	82,199	1,318,353
Pupil Transportation	1,181,477	0	0	1,181,477
Central	188,644	0	6,800	195,444
Operation of Non-Instructional Services:				
Food Service Operations	35,310	0	226,097	261,407
Extracurricular Activities	501,235	0	347,584	848,819
Capital Outlay	15,241	0	426,613	441,854
Debt Service:				
Principal Retirement	0	558,427	0	558,427
Interest and Fiscal Charges	0	247,843	0	247,843
Capital Appreciation Bonds Interest	0	46,573	0	46,573
Bond Issuance Costs	0	46,330	0	46,330
Total Expenditures	<u>14,385,127</u>	<u>1,006,312</u>	<u>2,025,432</u>	<u>17,416,871</u>
Excess of Revenues Over (Under) Expenditures	<u>314,167</u>	<u>48,089</u>	<u>101,994</u>	<u>464,250</u>
Other Financing Sources (Uses)				
General Obligation Bonds Issued	0	4,525,000	0	4,525,000
Bond Premium	0	278,876	0	278,876
Payment to Refunded Bond Escrow Agent	0	(4,852,318)	0	(4,852,318)
Transfers In	0	0	105,447	105,447
Transfers Out	(105,447)	0	0	(105,447)
Total Other Financing Sources (Uses)	<u>(105,447)</u>	<u>(48,442)</u>	<u>105,447</u>	<u>(48,442)</u>
Net Change in Fund Balances	208,720	(353)	207,441	415,808
Fund Balances Beginning of Year	<u>6,269,042</u>	<u>505,694</u>	<u>352,734</u>	<u>7,127,470</u>
Fund Balances End of Year	<u>\$6,477,762</u>	<u>\$505,341</u>	<u>\$560,175</u>	<u>\$7,543,278</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, 2016*

Net Change in Fund Balances - Total Governmental Funds	\$415,808
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	
Capital Outlay	370,824
Depreciation	<u>(609,847)</u>
Total	(239,023)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Delinquent Property Taxes	72,998
Intergovernmental	(931,136)
School Employees Retirement	
System Reimbursement	<u>(4,372)</u>
Total	(862,510)
Other financing sources, such as general obligation bonds issued, in the governmental funds increase long-term liabilities in the statement of net assets.	
	(4,576,558)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	
Accrued Interest	7,838
Accretion on Capital Appreciation Bonds	(24,490)
Amortization of Accounting Loss	(139,811)
Amortization of Bond Premium	<u>75,400</u>
Total	(81,063)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
	5,230,000
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	(102,958)
Accrued Vacation Leave Payable	<u>(2,926)</u>
Total	(105,884)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts in deferred outflows.	
	1,195,899
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.	
	<u>(961,929)</u>
<i>Change in Net Position of Governmental Activities</i>	<u><u>\$14,740</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 Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$12,525,650	\$12,525,650	\$11,828,209	(\$697,441)
Intergovernmental	1,386,121	1,411,500	2,446,288	1,034,788
Interest	19,139	19,489	33,777	14,288
Tuition and Fees	49,750	50,663	87,803	37,140
Extracurricular Activities	28,304	28,822	49,952	21,130
Contributions and Donations	21,138	21,525	37,305	15,780
Charges for Services	8,472	8,627	14,951	6,324
Rentals	7,798	7,941	13,763	5,822
Miscellaneous	76,864	78,272	233,156	154,884
<i>Total Revenues</i>	14,123,236	14,152,489	14,745,204	592,715
Expenditures				
Current:				
Instruction:				
Regular	6,827,518	6,500,238	6,440,247	59,991
Special	1,325,711	1,397,111	1,397,111	0
Vocational	137,720	82,099	82,099	0
Student Intervention Services	62,389	62,389	20,595	41,794
Support Services:				
Pupil	1,053,428	1,206,824	1,206,824	0
Instructional Staff	490,693	426,107	360,515	65,592
Board of Education	177,961	179,033	179,033	0
Administration	1,111,980	977,288	977,288	0
Fiscal	482,523	540,431	540,431	0
Business	21,380	26,319	26,319	0
Operation and Maintenance of Plant	1,401,839	1,299,113	1,273,960	25,153
Pupil Transportation	1,291,592	1,292,592	1,194,746	97,846
Central	148,743	193,593	193,593	0
Operation of Non-Instructional Services	35,000	39,013	37,158	1,855
Extracurricular Activities	444,027	503,157	502,272	885
Capital Outlay	19,049	160,000	15,241	144,759
<i>Total Expenditures</i>	15,031,553	14,885,307	14,447,432	437,875
<i>Excess of Revenues Over (Under) Expenditures</i>	(908,317)	(732,818)	297,772	1,030,590
Other Financing Sources (Uses)				
Advances In	0	0	77,685	77,685
Advances Out	0	0	(84,300)	(84,300)
Transfers In	2,887	2,940	193	(2,747)
Transfers Out	(20,000)	(136,125)	(130,438)	5,687
<i>Total Other Financing Sources (Uses)</i>	(17,113)	(133,185)	(136,860)	(3,675)
<i>Net Change in Fund Balance</i>	(925,430)	(866,003)	160,912	1,026,915
<i>Fund Balance Beginning of Year</i>	6,518,732	6,518,732	6,518,732	0
<i>Prior Year Encumbrances Appropriated</i>	164,716	164,716	164,716	0
<i>Fund Balance End of Year</i>	\$5,758,018	\$5,817,445	\$6,844,360	\$1,026,915

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, 2016

Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$64,534</u>
Liabilities	
Due to Students	<u>\$64,534</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, 2016

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 50 non-certified employees, 82 certified full-time teaching personnel, and 8 administrative employees who provide services to 1,187 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, 2016

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, 2016

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, 2016

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, 2016, but which were levied to finance fiscal year 2017 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, 2016

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 2016, investments were limited to State of Ohio infrastructure improvement bonds, federal national mortgage association bonds, resolution funding corporation 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, 2016

For the fiscal year 2016, 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 2016 amounted to \$45,978, which includes \$6,478 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.

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, 2016

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:

Description	Estimated Lives
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.

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.

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

Kirtland Local School District
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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 2017’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, 2016

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

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 2016, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application,” GASB Statement No 73, “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,” GASB Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,” GASB Statement No. 79, “Certain External Investment Pools and Pool Participants,” and GASB Statement No. 82, “Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73.”

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the School District’s fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68. The implementation of this GASB pronouncement did not result in any changes to the School District’s financial statements.

GASB Statement No. 76 identifies-in the context of the current governmental financial reporting environment-the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the School District’s financial statements.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance also establishes additional note disclosure requirements for governments that participate in those pools. The School Districts participates in STAR Ohio which implemented GASB Statement No. 79 for fiscal year 2016. The School District incorporated the corresponding GASB 79 guidance into their fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

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

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the School District's fiscal year 2016 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>				
Food Service	\$0	\$0	\$22,811	\$22,811
College Scholarships	0	0	1,050	1,050
Education Foundation	0	0	44,855	44,855
Athletics and Music	0	0	77,341	77,341
Non-Public Schools	0	0	10,418	10,418
Technology	0	0	93,777	93,777
Debt Service Payments	0	505,341	0	505,341
Capital Improvements	0	0	286,843	286,843
<i>Total Restricted</i>	<u>0</u>	<u>505,341</u>	<u>537,095</u>	<u>1,042,436</u>
<i>Committed to:</i>				
College Scholarships	0	0	79,870	79,870
<i>Assigned to:</i>				
Uniform School Supplies	19,333	0	0	19,333
Support Services	15,247	0	0	15,247
Fiscal Year 2016 Appropriations	1,519,113	0	0	1,519,113
<i>Total Assigned</i>	<u>1,553,693</u>	<u>0</u>	<u>0</u>	<u>1,553,693</u>
<i>Unassigned (Deficit)</i>	<u>4,924,069</u>	<u>0</u>	<u>(56,790)</u>	<u>4,867,279</u>
<i>Total Fund Balances</i>	<u>\$6,477,762</u>	<u>\$505,341</u>	<u>\$560,175</u>	<u>\$7,543,278</u>

Note 5 – Accountability

The following funds had deficit fund balances at June 30, 2016:

<i>Special Revenue Funds:</i>	<u>Amount</u>
Title VI-B	\$31,189
Title II-D	51
Title I	13,995
Preschool Disabilities	1,100
Improving Teacher Quality	10,455

Kirtland Local School District
Notes to the Basic Financial Statements
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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.

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 fund 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	\$208,720
Net Adjustment for Revenue Accruals	131,904
Net Adjustment for Expenditure Accruals	(101,441)
Ending Fair Value Adjustment for Investments	(23,115)
Advances In	77,685
Advances Out	(84,300)
Perspective Difference:	
Uniform School Supplies	(21,480)
Encumbrances	(27,061)
Budget Basis	<u><u>\$160,912</u></u>

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

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, 2016

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 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.

Investments

Investments are reported at fair value. As of June 30, 2016, the School District had the following investments:

Measurement/Investment	Measurement Amount	Maturity	Standard & Poor's Rating	Percent of Total Investments
Fair Value:				
State of Ohio Infrastructure Improvement Bonds	\$102,219	Less than one year	AA+	14.89 %
Federal National Mortgage Association Notes	99,710	Less than one year	AA+	14.53
Resolution Funding Corporation Bonds	49,859	Less than one year	AAA	7.27
Net Asset Value Per Share: STAR Ohio	<u>434,494</u>	Average 48.6 Days	AAAm	N/A
Total Investments	<u><u>\$686,282</u></u>			

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, 2016. All of the School District's investments measured at fair value are valued using quoted market prices (Level 1 inputs).

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.

Kirtland Local School District
Notes to the Basic Financial Statements
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Credit Risk. The Standard & Poor's ratings of the School District's investments are listed in the preceding table. 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, 2016, 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
IDEA Part B - Special Education	\$116,060
School Employees Retirement System	28,508
Improving Teacher Quality	20,766
Title I	11,857
Education Service Center of Cuyahoga County	4,422
Ohio Department of Education	35
Total Intergovernmental Receivable	\$181,648

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.

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 2016 represent the collection of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed values as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2016, represent the collection of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien on December 31, 2014, were levied after April 1, 2015, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Kirtland Local School District
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For the Fiscal Year Ended June 30, 2016

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, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which are measurable as of June 30, 2016, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset to deferred inflows of resources – property taxes.

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 amount available as an advance at June 30, 2015 was \$1,181,130 in the general fund, \$89,347 in the bond retirement fund and \$21,407 in the permanent improvement capital projects fund.

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

	2015 Second Half Collections		2016 First Half Collections	
	Amount	Percent	Amount	Percent
Residential/Agricultural and Other Real Estate	\$305,862,620	96.13 %	\$314,740,860	96.24 %
Public Utility Personal	12,319,290	3.87	12,293,330	3.76
Total	\$318,181,910	100.00 %	\$327,034,190	100.00 %
Tax rate per \$1,000 of assessed valuation	\$78.12		\$77.32	

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, 2016, and for which there is an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance fiscal year 2016 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.

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

Note 11 - Capital Assets

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

	Balance 6/30/2015	Additions	Deletions	Balance 6/30/2016
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$813,790	\$0	\$0	\$813,790
Construction in Progress	108,331	100,870	209,201	0
<i>Total Capital Assets, not being depreciated</i>	<u>922,121</u>	<u>100,870</u>	<u>209,201</u>	<u>813,790</u>
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,535,756	93,536	0	2,629,292
Buildings and Improvements	20,558,548	221,401	0	20,779,949
Furniture and Equipment	460,929	20,140	0	481,069
Vehicles	1,440,828	144,078	51,753	1,636,659
<i>Total Capital Assets, being depreciated</i>	<u>24,996,061</u>	<u>479,155</u>	<u>51,753</u>	<u>25,526,969</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(1,153,843)	(103,614)	0	(1,257,457)
Buildings and Improvements	(5,808,939)	(395,153)	0	(6,204,092)
Furniture and Equipment	(288,392)	(22,285)	0	(310,677)
Vehicles	(1,038,544)	(88,795)	(51,753)	(1,179,092)
<i>Total Accumulated Depreciation</i>	<u>(8,289,718)</u>	<u>(609,847) *</u>	<u>(51,753)</u>	<u>(8,951,318)</u>
<i>Total Capital Assets, being depreciated, net</i>	<u>16,706,343</u>	<u>(130,692)</u>	<u>0</u>	<u>16,575,651</u>
Governmental Activities Capital Assets, Net	<u><u>\$17,628,464</u></u>	<u><u>(\$29,822)</u></u>	<u><u>\$209,201</u></u>	<u><u>\$17,389,441</u></u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$489,681
Support Services:	
Board of Education	5,723
Administration	5,263
Operation of Plant	5,678
Pupil Transportation	95,526
Food Service Operations	416
Extracurricular Activities	7,560
<i>Total Depreciation Expense</i>	<u><u>\$609,847</u></u>

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

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 2016, the School District contracted with Hylant Administrative Services 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	50,000
General Liability	6,000,000
Employee Benefits Liability	6,000,000
Employer's Liability	6,000,000
School Leader's Errors and Omissions Liability	6,000,000
Sexual Misconduct and Molestation	6,000,000
Fleet	6,000,000
Uninsured Motorists	250,000
Boiler and Machinery	44,671,483
Fiduciary Liability	6,000,000
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).

Workers' Compensation

For fiscal year 2016, 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.

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

Note 13 - 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, 2016.

School Foundation

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2015, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the 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, 2016 Foundation funding for the School District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School District.

Litigation

As of June 30, 2016, the School District was not party to any legal proceedings.

Note 14 – Interfund Transactions

Interfund Balances

Interfund balances at June 30, 2016, consist of the following individual fund receivables and payables:

<u>Interfund Payable</u>	<u>Interfund Receivable</u>
<u>Other Governmental Funds:</u>	<u>General</u>
Title VI-B	\$104,565
Title II-D	51
Preschool	1,100
Title I	15,000
Title VI-R	15,000
Total	<u><u>\$135,716</u></u>

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

Transfers

The general fund made transfers to other governmental funds in the amount of \$105,447, to move unrestricted balances to support programs and projects accounted for in other funds.

Kirtland Local School District
Notes to the Basic Financial Statements
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Note 15 – Long-Term Obligations

Changes in long-term obligations of the School District during fiscal year 2016 were as follows:

	Principal Outstanding 6/30/15	Additions	Deductions	Principal Outstanding 6/30/16	Amounts Due in One Year
Governmental Activities					
General Obligation Bonds:					
2006 School Improvement Bonds 4%-17.324%					
Current Interest Serial Bonds	\$3,825,000	\$0	\$3,825,000	\$0	\$0
2007 School Improvement Bonds 4%-12.994%					
Current Interest Serial Bonds	145,000	0	75,000	70,000	70,000
Term Bonds	1,160,000	0	1,160,000	0	0
Capital Appreciation Bonds	23,427	0	23,427	0	0
Accretion on Capital Appreciation Bonds	42,301	4,272	46,573	0	0
2013 School Improvement Refunding Bonds 1.25 - 3.00%					
Current Interest Serial Bonds	8,440,000	0	100,000	8,340,000	100,000
Capital Appreciation Bonds	14,992	0	0	14,992	0
Accretion on Capital Appreciation Bonds	21,733	20,218	0	41,951	0
Premium on Bonds	1,072,281	0	56,808	1,015,473	0
2016 School Improvement Refunding Bonds 3.56%					
Current Interest Serial Bonds	0	4,525,000	0	4,525,000	440,000
Premium on Bonds	0	278,876	18,592	260,284	0
Total General Obligation Bonds	14,744,734	4,828,366	5,305,400	14,267,700	610,000
Compensated Absences	900,837	524,487	421,529	1,003,795	112,227
Net Pension Liability					
SERS	3,269,116	375,140	0	3,644,256	0
STRS	14,658,172	2,827,896	0	17,486,068	0
Total Net Pension Liability	17,927,288	3,203,036	0	21,130,324	0
Total Governmental Activities Long-Term Liabilities	\$33,572,859	\$8,555,889	\$5,726,929	\$36,401,819	\$722,227

On August 23, 2006, the School District issued \$14,794,994 in general obligation bonds which included serial, term and capital appreciation (deep discount) bonds in the amounts of \$8,105,000, \$6,450,000 and \$239,994, respectively, at interest rates varying from 4 to 17.324 percent. The bonds were issued for a twenty-seven year period with final maturity at December 1, 2033. The remaining amount of the bonds were refunded during fiscal year 2016.

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 will be retired from the debt service fund.

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

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, 2016, \$7,110,000 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 2016 was \$20,218, for a total outstanding bond liability of \$56,943.

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 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.

	2006 School Improvement Bonds	2007 School Improvement Bonds	Total Refunding
Outstanding at June 30, 2015	\$3,825,000	\$1,375,000	\$5,200,000
Amount Refunding	(3,390,000)	(1,235,000)	(4,625,000)
Principal Payment on Non-Refunded Portion	<u>(435,000)</u>	<u>(70,000)</u>	<u>(505,000)</u>
Outstanding at June 30, 2016	<u>\$0</u>	<u>\$70,000</u>	<u>\$70,000</u>

As a result, \$4,625,000 of these bonds are considered defeased and the liability for the refunded bonds has been removed from the School District's financial statements. 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.

	2006 School Improvement Bonds	2007 School Improvement Bonds	Total Refunding
School Improvement Bonds	\$3,390,000	\$1,235,000	\$4,625,000
Payment to Refunded Bond Escrow Agent - Other Financing Uses	<u>(3,528,040)</u>	<u>(1,324,278)</u>	<u>(4,852,318)</u>
2016 School Improvement Bond Refunding - Accounting Loss	<u>(\$138,040)</u>	<u>(\$89,278)</u>	<u>(\$227,318)</u>

Although the refunding will result in the recognition of an accounting loss of \$227,318, the School District in effect decreased its aggregated debt service payments by \$331,168 over the next 15 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of \$306,298.

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Notes to the Basic Financial Statements
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The School District's overall legal debt margin at June 30, 2016 was \$16,946,475 with an unvoted debt margin of \$327,034. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2016, are as follows:

	General Obligation Bonds			
	Serial		Capital Appreciation	
	Principal	Interest	Principal	Interest
2017	\$610,000	\$533,008	\$0	\$0
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
2022-2026	2,525,000	1,902,007	14,992	1,445,008
2027-2031	4,385,000	1,070,494	0	0
2032-2034	2,650,000	162,838	0	0
Total	\$12,935,000	\$5,608,584	\$14,992	\$1,445,008

Compensated absences will be paid from the general, food service and title I special revenue funds. The School District pays obligations related to employee compensation from the fund benefitting from their service.

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.

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, 2015	\$0
Current Year Set-aside Requirement	205,876
Current Year Offsets	(230,544)
Qualifying Disbursements	(225,728)
Totals	(\$250,396)
Set-aside Balance Carried Forward to Future Fiscal Years	\$0
Set-aside Balance as of June 30, 2016	\$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.

Kirtland Local School District
Notes to the Basic Financial Statements
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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 2016, the School District paid \$99,855 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 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 2016, the School District paid \$1,434 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, 2016 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.

Kirtland Local School District
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For the Fiscal Year Ended June 30, 2016

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.

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	\$27,061
Other Governmental Funds	<u>114,072</u>
Totals	<u><u>\$141,133</u></u>

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

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.

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.

Kirtland Local School District
Notes to the Basic Financial Statements
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Age and service requirements for retirement are as follows:

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

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

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

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

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

The School District's contractually required contribution to SERS was \$247,814 for fiscal year 2016. Of this amount \$16,874 is reported as an intergovernmental payable.

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

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

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are

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eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11 percent of the 12 percent member rate goes to the DC Plan and 1 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

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

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

The School District's contractually required contribution to STRS was \$948,085 for fiscal year 2016. Of this amount \$181,075 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

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	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.06459500%	0.06026351%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.06386600%</u>	<u>0.06327032%</u>	
Change in Proportionate Share	<u>-0.00072900%</u>	<u>0.00300681%</u>	
Proportionate Share of the Net Pension Liability	\$3,644,256	\$17,486,068	\$21,130,324
Pension Expense	\$217,142	\$744,787	\$961,929

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$58,680	\$797,144	\$855,824
Changes in proportionate share and difference between School District contributions and proportionate share of contributions	0	806,485	806,485
School District contributions subsequent to the measurement date	<u>247,814</u>	<u>948,085</u>	<u>1,195,899</u>
Total Deferred Outflows of Resources	<u>\$306,494</u>	<u>\$2,551,714</u>	<u>\$2,858,208</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$120,746	\$1,257,579	\$1,378,325
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>43,352</u>	<u>0</u>	<u>43,352</u>
Total Deferred Inflows of Resources	<u>\$164,098</u>	<u>\$1,257,579</u>	<u>\$1,421,677</u>

\$1,195,899 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	(\$57,700)	(\$82,173)	(\$139,873)
2018	(57,700)	(82,173)	(139,873)
2019	(57,978)	(82,173)	(140,151)
2020	<u>67,960</u>	<u>592,569</u>	<u>660,529</u>
Total	<u>(\$105,418)</u>	<u>\$346,050</u>	<u>\$240,632</u>

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Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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

Kirtland Local School District
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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$5,053,273	\$3,644,256	\$2,457,747

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA 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.

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

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

STRS' investment consultant develops best estimates 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>10 Year Expected Nominal 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	<u>100.00 %</u>	

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School District's proportionate share of the net pension liability	\$24,289,464	\$17,486,068	\$11,732,778

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

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2016, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

Note 23 - Postemployment Benefits

School Employee 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. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the School District's surcharge obligation was \$28,352.

The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$49,836 and \$58,243, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

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

State Teachers Retirement System

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 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, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. For the fiscal year ended June 30, 2014, one percent of covered payroll was allocated to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0 and \$53,838, respectively. The full amount has been contributed for 2016, 2015 and 2014.

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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 Three Fiscal Years (1)**

	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.06386600%	0.06459500%	0.06459500%
School District's Proportionate Share of the Net Pension Liability	\$3,644,256	\$3,269,116	\$3,841,257
School District's Covered-Employee Payroll	\$1,770,100	\$1,815,986	\$1,884,595
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	205.88%	180.02%	203.82%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.70%	71.70%	65.52%

(1) Information prior to 2014 is not available.

*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 Three Fiscal Years (1)**

	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.06327032%	0.06026351%	0.06026351%
School District's Proportionate Share of the Net Pension Liability	\$17,486,068	\$14,658,172	\$17,460,718
School District's Covered-Employee Payroll	\$6,772,036	\$5,954,579	\$5,884,615
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	258.21%	246.17%	296.72%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	74.70%	69.30%

(1) Information prior to 2014 is not available.

*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>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$247,814	\$239,347	\$261,205	\$261,508
Contributions in Relation to the Contractually Required Contribution	<u>(247,814)</u>	<u>(239,347)</u>	<u>(261,205)</u>	<u>(261,508)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll	\$1,770,100	\$1,815,989	\$1,884,595	\$1,889,511
Contributions as a Percentage of Covered Payroll	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$282,179	\$257,339	\$260,424	\$178,410	\$176,914	\$181,521
<u>(282,179)</u>	<u>(257,339)</u>	<u>(260,424)</u>	<u>(178,410)</u>	<u>(176,914)</u>	<u>(181,521)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$2,097,984	\$2,047,248	\$1,923,365	\$1,813,113	\$1,801,572	\$1,699,635
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$948,085	\$833,641	\$765,600	\$820,873
Contributions in Relation to the Contractually Required Contribution	<u>(948,085)</u>	<u>(833,641)</u>	<u>(765,600)</u>	<u>(820,873)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll	\$6,772,036	\$5,954,579	\$5,889,229	\$6,314,408
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$662,091	\$847,894	\$852,015	\$793,739	\$760,136	\$710,242
<u>(662,091)</u>	<u>(847,894)</u>	<u>(852,015)</u>	<u>(793,739)</u>	<u>(760,136)</u>	<u>(710,242)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$5,093,008	\$6,522,262	\$6,553,962	\$6,105,685	\$5,847,200	\$5,463,400
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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