
ALGER & ASSOCIATES, Inc.



**KELLEYS ISLAND LOCAL
SCHOOL DISTRICT**

ERIE COUNTY, OHIO

**BASIC FINANCIAL STATEMENTS
(REGULAR AUDIT)**



FOR THE FISCAL YEAR ENDED

JUNE 30, 2019

Karen S. Alger, CPA, CGFM –
Managing Partner
6927 Burgundy Ave. NW
North Canton, OH 44720
Phone (330) 354-2327
Fax (330) 768-7574

Gary L. Alger, CPA
Partner
6927 Burgundy Ave NW
North Canton, OH 44720
Phone (330) 353-5851
Fax (330) 768-7574



88 East Broad Street
Columbus, Ohio 43215
IPARepor@ohioauditor.gov
(800) 282-0370

Board of Education
Kelleys Island Local School District
528 Division Street, P.O. Box 349
Sandusky, Ohio 44870

We have reviewed the *Independent Auditor's Report* of the Kelleys Island Local School District, Erie County, prepared by Alger & Associates, Inc., for the audit period July 1, 2018 through June 30, 2019. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

January 3, 2020

This page intentionally left blank.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
 ERIE COUNTY, OHIO
 JUNE 30, 2019**

TABLE OF CONTENTS

Independent Auditor’s Report	1 - 2
Management’s Discussion and Analysis	3 - 12
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund.....	19
Statement of Fiduciary Net Position - Fiduciary Funds	20
Statement of Changes in Fiduciary Net Position - Fiduciary Fund	21
Notes to the Basic Financial Statements.....	23 - 59
Required Supplementary Information:	
Schedule of the District’s Proportionate Share of the Net Pension Liability:	
School Employees Retirement System (SERS) of Ohio	62 - 63
State Teachers Retirement System (STRS) of Ohio	64 - 65
Schedule of District Pension Contributions:	
School Employees Retirement System (SERS) of Ohio	66 - 67
State Teachers Retirement System (STRS) of Ohio	68 - 69
Schedule of the District’s Proportionate Share of the Net OPEB Liability:	
School Employees Retirement System (SERS) of Ohio	70
State Teachers Retirement System (STRS) of Ohio	71
Schedule of District OPEB Contributions:	
School Employees Retirement System (SERS) of Ohio	72 - 73
State Teachers Retirement System (STRS) of Ohio	74 - 75
Notes to Required Supplementary Information	76 - 77
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing</i> Standards.....	79 - 80



ALGER & ASSOCIATES, Inc.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Kelleys Island Local School District
Erie County
528 Division Street, PO Box 349
Sandusky, Ohio 44870

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Kelleys Island Local School District, Erie County, Ohio (the District), as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Kelleys Island Local School District, Erie County, Ohio, as of June 30, 2019, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters


Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Karen S
Alger, CPA



Digitally signed by Karen S
Alger, CPA
DN: cn=Karen S Alger, CPA,
o=Alger & Associates, Inc. ou,
email=ksalger46@att.net, c=US
Date: 2019.12.11 13:41:16
+05'00'

Alger & Associates, Inc.
Certified Public Accountants
North Canton, OH
December 12, 2019

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)**

The management's discussion and analysis of the Kelleys Island Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2019 are as follows:

- In total, net position of governmental activities increased \$46,876 which represents a 2.01% increase from 2018's net position.
- General revenues accounted for \$717,399 in revenue or 94.31% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$43,293 or 5.69% of total revenues of \$760,692.
- The District had \$713,816 in expenses related to governmental activities; only \$43,293 of these expenses were offset by program specific charges for services, grants, or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$717,399 were sufficient to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$701,693 in revenues and \$681,019 in expenditures. During fiscal year 2019, the general fund's fund balance increased \$20,674 from a balance of \$940,131 to \$960,805.

Using the Basic Financial Statements

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

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did the District perform financially during 2019?" The statement of net position and the statement of activities answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)

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

In the statement of net position and the statement of activities, the governmental activities include the District's programs and services, including instruction and support services.

The District's statement of net position and statement of activities can be found on pages 13 and 14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets than can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps to 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 basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals and other entities. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-59 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability and net OPEB liability/asset. The required supplementary information can be found on pages 62-77 of this report.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)

The District as a Whole

The table below provides a summary of the District's net position at June 30, 2019 and June 30, 2018.

	Net Position	
	Governmental Activities 2019	Governmental Activities 2018
<u>Assets</u>		
Current and other assets	\$ 1,855,826	\$ 1,521,303
Net OPEB asset	21,528	-
Capital assets, net	<u>1,623,618</u>	<u>1,658,961</u>
Total assets	<u>3,500,972</u>	<u>3,180,264</u>
<u>Deferred Outflows of Resources</u>		
Pension	184,440	184,903
OPEB	<u>9,220</u>	<u>3,358</u>
Total deferred outflows of resources	<u>193,660</u>	<u>188,261</u>
<u>Liabilities</u>		
Current liabilities	26,337	18,392
Long-term liabilities:		
Due in more than one year:		
Net pension liability	420,750	417,900
Net OPEB liability	56,745	102,513
Other amounts	<u>30,079</u>	<u>30,037</u>
Total liabilities	<u>533,911</u>	<u>568,842</u>
<u>Deferred Inflows of Resources</u>		
Property taxes	711,892	426,695
Pension	27,561	26,631
OPEB	<u>40,647</u>	<u>12,612</u>
Total deferred inflows of resources	<u>780,100</u>	<u>465,938</u>
<u>Net Position</u>		
Investment in capital assets	1,623,618	1,658,961
Restricted	150,601	130,287
Unrestricted	<u>606,402</u>	<u>544,497</u>
Total net position	<u>\$ 2,380,621</u>	<u>\$ 2,333,745</u>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)

The net pension liability (NPL) is the largest single liability reported by the District at June 30, 2019 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." The District has adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB and the net OPEB asset.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability/asset to equal the District's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this 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 these liabilities. 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 Ohio revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)**

In accordance with GASB 68 and GASB 75, the District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability/asset, respectively, not accounted for as deferred inflows/outflows.

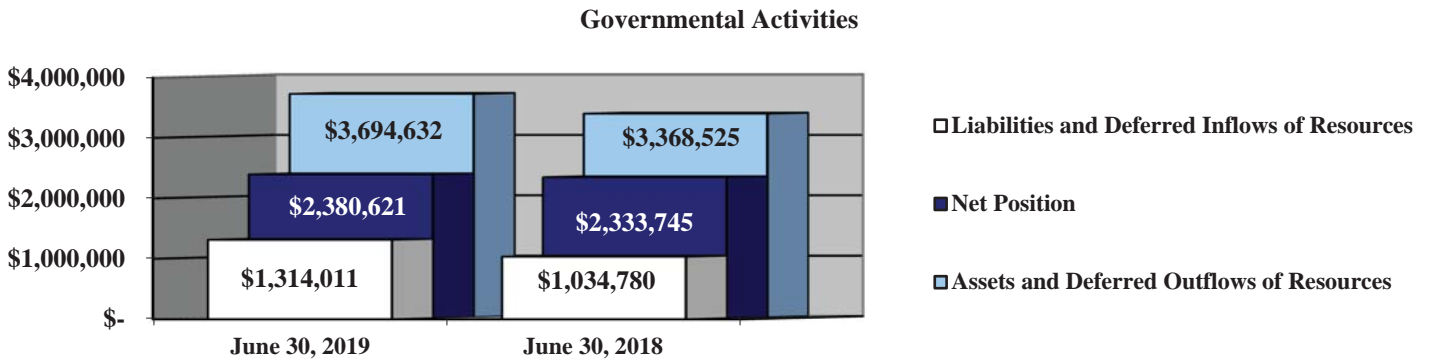
Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2019, the District's assets and deferred outflows exceeded liabilities and deferred inflows of resources by \$2,380,621.

At year end, capital assets represented 46.38% of total assets. Capital assets include land improvements, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of accumulated depreciation, at June 30, 2019, were \$1,623,618. These capital assets are used to provide services to the students and are not available for future spending. For this reason, net position in an amount equal to the carrying value of these assets is reported as the District's investment in capital assets.

Long-term liabilities decreased primarily due to a decrease in the net OPEB liability. This factor is outside of the control of the District. The District contributes its statutorily required contributions to the pension systems; however, it's the pension systems that collect, hold and distribute pensions to District employees, not the District.

A portion of the District's net position, \$150,601, represents resources that are subject to external restriction on how they may be used. Such restrictions may be imposed by the District's creditors, grantors, or legally by statutes or enabling legislation. The remaining balance of unrestricted net position of \$606,402 may be used to meet the District's ongoing obligations to students, the community and creditors.

The graph below shows the District's assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position at June 30, 2019 and 2018.



THIS SPACE IS INTENTIONALLY LEFT BLANK

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)

Governmental Activities

The table below shows the change in net position for fiscal years 2019 and 2018.

	Governmental Activities 2019	Governmental Activities 2018
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 27,062	\$ 25,234
Operating grants and contributions	16,231	2,337
General revenues:		
Property taxes	614,079	481,285
Grants and entitlements	83,156	64,585
Investment earnings	20,164	9,252
Total revenues	<u>760,692</u>	<u>582,693</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	255,347	159,227
Special	104	-
Adult/continuing	23,962	18,328
Support services:		
Pupil	4,148	544
Instructional staff	115,343	120,229
Board of education	23,390	13,221
Administration	97,148	47,762
Fiscal	51,990	43,860
Operations and maintenance	142,384	120,607
Total expenses	<u>713,816</u>	<u>523,778</u>
Change in net position	46,876	58,915
Net position at beginning of year (restated)	<u>2,333,745</u>	<u>2,274,830</u>
Net position at end of year	<u>\$ 2,380,621</u>	<u>\$ 2,333,745</u>

Net position of the District's governmental activities increased \$46,876. Total governmental expenses of \$713,816 were offset by program revenues of \$43,293 and general revenues of \$717,399. Program revenues supported 6.07% of the total governmental expenses. The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These revenue sources represent 91.66% of total governmental revenue.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

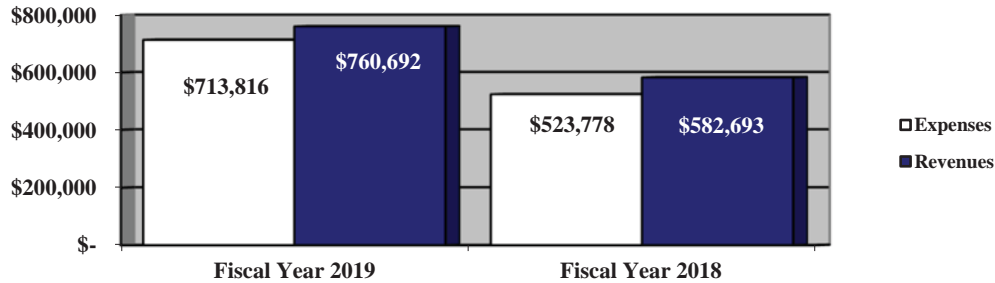
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)**

Overall, expenses of the governmental activities increased \$190,038 or 36.28%. This increase is primarily the result of the State Teachers Retirement System (STRS) indefinitely suspending the Cost of Living Adjustment ("COLA") and the School Employee Retirement System (SERS) lowering the COLA from 3.00% to 2.50% in fiscal year 2018.

On an accrual basis, the District reported \$55,924 in pension expense and (\$43,911) in OPEB expense mainly due to these benefit changes by the retirement systems. Fluctuations in the pension and OPEB expense reported under GASB 68 and 75 makes it difficult to compare financial information between years. Pension and OPEB expense are components of program expenses reported on the statement of activities. The District's total expenses for fiscal year 2019 are comparable to total fiscal year 2017 expenses.

The graph below presents the District's governmental activities revenues and expenses for fiscal years 2019 and 2018.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. The total and net costs of services for fiscal years 2019 and 2018 are presented below.

Governmental Activities

	Total Cost of Services 2019	Net Cost of Services 2019	Total Cost of Services 2018	Net Cost of Services 2018
Program expenses				
Instruction:				
Regular	255,347	219,272	159,227	133,994
Special	104	-	-	-
Adult/continuing	23,962	23,962	18,328	18,328
Support services:				
Pupil	4,148	4,147	544	544
Instructional staff	115,343	108,703	120,229	118,429
Board of education	23,390	23,390	13,221	13,221
Administration	97,148	96,675	47,762	47,225
Fiscal	51,990	51,990	43,860	43,860
Operations and maintenance	142,384	142,384	120,607	120,606
Total expenses	<u>\$ 713,816</u>	<u>\$ 670,523</u>	<u>\$ 523,778</u>	<u>\$ 496,207</u>

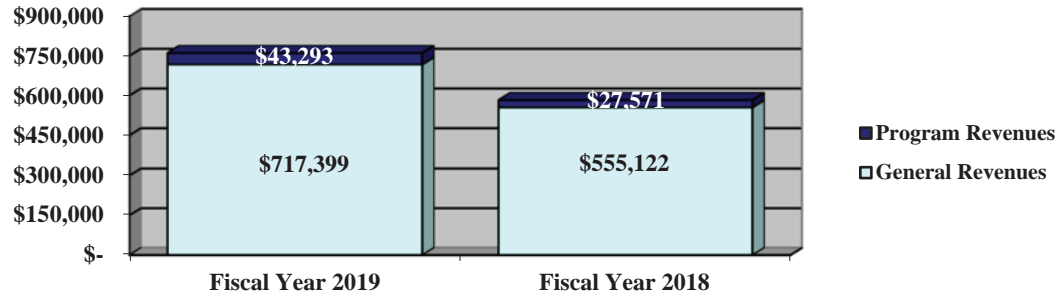
**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)

The dependence upon tax and other general revenues for governmental activities is apparent, as 87.05% of instruction activities and 98.36% of support services activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 93.93%. The District's taxpayers and unrestricted grants and entitlements are needed to help support the District's operations.

The graph below presents the District's governmental activities revenues for fiscal year 2019 and 2018.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds, as presented on the balance sheet on page 15, reported a combined fund balance of \$1,110,959, which is more than last year's total of \$1,069,971.

The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2019 and 2018.

	Fund Balance June 30, 2019	Fund Balance June 30, 2018	Change
General	\$ 960,805	\$ 940,131	\$ 20,674
Nonmajor governmental	150,154	129,840	20,314
Total	\$ 1,110,959	\$ 1,069,971	\$ 40,988

General Fund

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

Revenues	2019 Amount	2018 Amount	Change	Percentage Change
Property taxes	\$ 578,486	\$ 445,690	\$ 132,796	29.80 %
Earnings on investments	17,555	8,248	9,307	112.84 %
Intergovernmental	78,590	60,724	17,866	29.42 %
Other revenues	27,062	25,234	1,828	7.24 %
Total	\$ 701,693	\$ 539,896	\$ 161,797	29.97 %

In total, the District's general fund revenues increased \$161,797. Earnings on investments increased \$9,307 due to an increase in interest received. Property tax revenues in the general fund increased \$132,796 or 29.80% due to an increase in assessed values on real estate. Intergovernmental revenues increased \$17,866 or 29.42% due to an increase in property tax rollback revenue provided by the State.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)

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

<u>Expenditures</u>	<u>2019 Amount</u>	<u>2018 Amount</u>	<u>Change</u>	<u>Percentage Change</u>
Instruction	\$ 240,272	\$ 186,053	\$ 54,219	29.14 %
Support services	440,747	419,165	21,582	5.15 %
Total	<u>\$ 681,019</u>	<u>\$ 605,218</u>	<u>\$ 75,801</u>	12.52 %

Instruction expenditures increased due to an increase in salaries and wages paid to certificated employees, while support services expenditures increased in part due to an increase in regular administrative services costs.

General Fund Budgeting Highlights

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

For the general fund, original and final budgeted revenues and other financing sources were \$552,810 and \$701,311 respectively. Actual revenues and other financing sources for fiscal year 2019 amounted to \$701,424, an increase of \$113 from the final budget. The district had higher than anticipated revenues in refunds from prior year expenditures.

General fund original and final budgetary basis expenditures and other financing uses totaled \$1,440,935 and \$1,424,510 respectively. For fiscal year 2019, the District's actual budgetary basis expenditures and other financing uses totaled \$710,944 and were \$713,566 less than in the final budget.

Capital Assets and Debt Administration

Capital Assets

The following table shows June 30, 2019 balances compared to June 30, 2018:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
Building and improvements	\$ 1,592,830	\$ 1,624,815
Furniture and equipment	11,496	13,772
Vehicles	19,292	20,374
Total	<u>\$ 1,623,618</u>	<u>\$ 1,658,961</u>

At the end of fiscal year 2019, the District had \$1,623,618 invested in buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The overall decrease in capital assets of \$35,343 is due to depreciation expense of \$52,343 exceeding additions of \$17,000 during fiscal year 2019. See Note 7 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2019, the District had no debt outstanding. The District's overall legal debt margin was \$7,765,885 with an unvoted debt margin of \$86,288.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(UNAUDITED)**

Current Financial Related Activities

The District has carefully managed its general fund budget in order to optimize the dollars available for educating the students it serves. The general fund's unencumbered budgetary-basis cash balance was \$893,605 at June 30, 2019. Fiscal year-end general fund budgetary-basis unencumbered cash balances were \$876,774, \$916,611, and \$974,007, at June 30 in fiscal years 2018, 2017, and 2016 respectively. Sound fiscal management by the Board of Education and administration has enabled the District to maintain a healthy cash balance, and continue a quality, comprehensive educational program.

Because of the District's small enrollment, any great increase or decrease in ADM could have a negative impact on the District and staff. Too many additional students would require additional staff members to continue to serve the needs of students, while too few students would find the District over-staffed. The Board of Education and administration realize the need to anticipate such changes in student enrollment. The Board of Education will continue to evaluate staffing needs and adjust staff if necessary.

The District has committed itself to educational and financial excellence for many years. It is committed to living within its financial means and working with the community it serves in order to garner adequate resources to support the educational program. The Board of Education and administration closely monitor the District's revenues and expenditures in accordance with its financial forecast. Overall, the District continues to perform at a high level.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Betty Schwiefert, Treasurer, Kelleys Island Local School District, 4918 Milan Road, Sandusky, Ohio 44870.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$ 1,070,414
Receivables:	
Property taxes	772,012
Accounts	6,561
Intergovernmental	4,319
Prepayments	2,520
Net OPEB asset (Note 13)	21,528
Depreciable capital assets, net	1,623,618
Total assets	3,500,972
 Deferred outflows of resources:	
Pension (Note 12)	184,440
OPEB (Note 13)	9,220
Total deferred outflows of resources	193,660
 Liabilities:	
Accounts payable	8,822
Accrued wages and benefits payable	10,908
Intergovernmental payable	3,869
Pension and postemployment benefits payable	2,737
Unearned revenue	1
Long-term liabilities:	
Due in more than one year:	
Net pension liability (Note 12)	420,750
Net OPEB liability (Note 13)	56,745
Other amounts due in more than one year	30,079
Total liabilities	533,911
 Deferred inflows of resources:	
Property taxes levied for the next fiscal year	711,892
Pension (Note 12)	27,561
OPEB (Note 13)	40,647
Total deferred inflows of resources	780,100
 Net position:	
Investment in capital assets	1,623,618
Restricted for:	
Capital projects	150,502
Locally funded programs	99
Unrestricted	606,402
Total net position	\$ 2,380,621

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
Expenses		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 255,347	\$ 27,062	\$ 9,013	\$ (219,272)
Special	104	-	104	-
Adult/continuing	23,962	-	-	(23,962)
Support services:				
Pupil	4,148	-	1	(4,147)
Instructional staff	115,343	-	6,640	(108,703)
Board of education	23,390	-	-	(23,390)
Administration	97,148	-	473	(96,675)
Fiscal	51,990	-	-	(51,990)
Operations and maintenance	142,384	-	-	(142,384)
Total governmental activities	<u>\$ 713,816</u>	<u>\$ 27,062</u>	<u>\$ 16,231</u>	<u>(670,523)</u>
 General revenues:				
Property taxes levied for:				
General purposes				578,486
Capital outlay				35,593
Grants and entitlements not restricted to specific programs				83,156
Investment earnings				20,164
Total general revenues				<u>717,399</u>
Change in net position				46,876
Net position at beginning of year				<u>2,333,745</u>
Net position at end of year				<u>\$ 2,380,621</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 924,201	\$ 146,213	\$ 1,070,414
Receivables:			
Property taxes	732,687	39,325	772,012
Accounts	6,561	-	6,561
Intergovernmental	4,319	-	4,319
Prepayments	2,520	-	2,520
Total assets	<u>\$ 1,670,288</u>	<u>\$ 185,538</u>	<u>\$ 1,855,826</u>
Liabilities:			
Accounts payable	\$ 8,822	\$ -	\$ 8,822
Accrued wages and benefits payable	10,908	-	10,908
Intergovernmental payable	3,869	-	3,869
Pension and postemployment benefits payable	2,737	-	2,737
Unearned revenue	1	-	1
Total liabilities	<u>26,337</u>	<u>-</u>	<u>26,337</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year	676,955	34,937	711,892
Delinquent property tax revenue not available	5,677	447	6,124
Intergovernmental revenue not available	514	-	514
Total deferred inflows of resources	<u>683,146</u>	<u>35,384</u>	<u>718,530</u>
Fund balances:			
Nonspendable:			
Prepayments	2,520	-	2,520
Restricted:			
Capital improvements	-	150,055	150,055
Other purposes	-	99	99
Assigned:			
Student instruction	13,439	-	13,439
Student and staff support	8,771	-	8,771
Subsequent year's appropriations	742,607	-	742,607
Unassigned	193,468	-	193,468
Total fund balances	<u>960,805</u>	<u>150,154</u>	<u>1,110,959</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,670,288</u>	<u>\$ 185,538</u>	<u>\$ 1,855,826</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2019

Total governmental fund balances		\$	1,110,959
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			1,623,618
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	6,124	
Intergovernmental receivable		514	
Total			6,638
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 governmental funds.			
Deferred outflows of resources - pension		184,440	
Deferred inflows of resources - pension		(27,561)	
Net pension liability		(420,750)	
Total			(263,871)
The net OPEB liability/asset is not due and payable in the current period; therefore, the liability/asset and related deferred inflows / outflows are not reported in governmental funds.			
Net OPEB asset		21,528	
Deferred outflows of resources - OPEB		9,220	
Deferred inflows of resources - OPEB		(40,647)	
Net OPEB liability		(56,745)	
Total			(66,644)
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.			(30,079)
Net position of governmental activities		\$	2,380,621

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Property taxes	\$ 578,486	\$ 35,593	\$ 614,079
Tuition	60	-	60
Earnings on investments	17,555	2,730	20,285
Contract services	27,002	-	27,002
Intergovernmental - intermediate	-	4,840	4,840
Intergovernmental - state	78,590	5,852	84,442
Intergovernmental - federal	-	9,591	9,591
Total revenues	<u>701,693</u>	<u>58,606</u>	<u>760,299</u>
Expenditures:			
Current:			
Instruction:			
Regular	215,289	9,013	224,302
Special	-	104	104
Adult/continuing	24,983	-	24,983
Support services:			
Pupil	8,373	1	8,374
Instructional staff	112,619	6,541	119,160
Board of education	24,598	-	24,598
Administration	102,336	473	102,809
Fiscal	54,189	640	54,829
Operations and maintenance	138,632	-	138,632
Facilities acquisition and construction	-	21,520	21,520
Total expenditures	<u>681,019</u>	<u>38,292</u>	<u>719,311</u>
Net change in fund balances	20,674	20,314	40,988
Fund balances at beginning of year	<u>940,131</u>	<u>129,840</u>	<u>1,069,971</u>
Fund balances at end of year	<u>\$ 960,805</u>	<u>\$ 150,154</u>	<u>\$ 1,110,959</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Net change in fund balances - total governmental funds	\$	40,988
<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.		
Capital asset additions	\$ 17,000	
Current year depreciation	<u>(52,343)</u>	
Total		(35,343)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Earnings on investments	(121)	
Intergovernmental	<u>514</u>	
Total		393
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		51,681
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(55,924)
Contractually required OPEB contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		1,212
Except for amounts reported as deferred inflows/outflows, changes in the net OPEB liability/asset are reported as OPEB expense in the statement of activities.		
		43,911
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>(42)</u>
Change in net position of governmental activities	\$	<u>46,876</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Property taxes	\$ 461,327	\$ 585,254	\$ 578,486	\$ (6,768)
Tuition	-	-	60	60
Earnings on investments	8,531	10,823	17,760	6,937
Rental income	1	1	1	-
Contract services	18,502	23,472	19,951	(3,521)
Intergovernmental - state	62,393	79,153	78,617	(536)
Total revenues	550,754	698,703	694,875	(3,828)
Expenditures:				
Current:				
Instruction:				
Regular	323,442	298,548	237,095	61,453
Adult/continuing	60,478	57,700	26,746	30,954
Support services:				
Pupil	35,500	26,925	7,925	19,000
Instructional staff	194,539	223,620	118,609	105,011
Board of education	59,207	58,500	25,691	32,809
Administration	148,375	146,525	102,924	43,601
Fiscal	92,400	92,570	54,437	38,133
Operations and maintenance	253,894	246,875	137,370	109,505
Facilities acquisition and construction	5,000	5,000	-	5,000
Total expenditures	1,172,835	1,156,263	710,797	445,466
Excess of expenditures over revenues	(622,081)	(457,560)	(15,922)	441,638
Other financing sources (uses):				
Refund of prior year's expenditures	2,056	2,608	6,549	3,941
Refund of prior year's receipts	-	(147)	(147)	-
Other uses	(268,100)	(268,100)	-	268,100
Total other financing sources (uses)	(266,044)	(265,639)	6,402	272,041
Net change in fund balance	(888,125)	(723,199)	(9,520)	713,679
Fund balance at beginning of year	876,774	876,774	876,774	-
Prior year encumbrances appropriated	26,351	26,351	26,351	-
Fund balance at end of year	\$ 15,000	\$ 179,926	\$ 893,605	\$ 713,679

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2019

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 2,869	\$ 2,153
Property taxes receivable	-	62,921
Total assets	2,869	\$ 65,074
Liabilities:		
Intergovernmental payable	-	\$ 62,921
Due to students	-	2,153
Total liabilities	-	\$ 65,074
Net position:		
Held in trust for scholarships	2,869	
Total net position	\$ 2,869	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Private-Purpose Trust	
	Scholarship	
Additions:		
Interest	\$	54
Net position at beginning of year		2,815
Net position at end of year	\$	2,869

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

THIS PAGE IS INTENTIONALLY LEFT BLANK

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Kelleys Island Local School District (the “District”) is located in Erie County, Ohio and encompasses Kelleys Island. The District was established through the consolidation of existing land areas and school districts and is organized under Section 2 and 3, Articles VI of the Constitution of the State of Ohio. Under such laws there is no authority for a school district to have a charter or adopt local laws. The legislative power of the school district is vested in the Board of Education, consisting of five members elected at large for staggered four-year terms.

The District operates 1 comprehensive school to provide services to students and various community groups. The District has 8 certified employees and 4 classified employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

THIS SPACE IS INTENTIONALLY LEFT BLANK

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATION

Northern Ohio Educational Computer Association (NOECA)

The NOECA is a jointly governed organization among various area school districts and service centers. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts and service centers. Each of the governments of these schools supports the NOECA based upon a per pupil charge, dependent upon the software package utilized. The NOECA assembly consists of a superintendent from each participating service center and a representative from the fiscal agent. The NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and two Assembly members from each county in which participating service centers are located. Each Service center's authority is limited to its representation on the Board. Financial information can be obtained by contacting the North Point Educational Service Center, which serves as fiscal agent, at 1210 E. Bogart Road, Sandusky, Ohio 44870.

PUBLIC ENTITY RISK POOLS

Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA), which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code - Non-Profit Corporations and functioning under authority granted by Section 2744.081 of the Ohio Revised Code. SORSA's purpose is to provide a joint self-insurance pool and to assist member districts in preventing and reducing losses and injuries to property and persons that might result in claims being made against members of SORSA, their employees or officers.

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association is a shared risk pool, with participants from Erie and Huron Counties. The Association is governed by an assembly which consists of one representative from each participant. The assembly elects officers for two year terms to serve as the Board of Directors. The Assembly exercises control over the operation of the Association. All Association revenues are generated from charges for services. Financial information can be obtained by contacting the program administrator at the Huron-Erie School Employees Insurance Association, located at 1210 E. Bogart Road, Sandusky, Ohio 44870.

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating program for workers' compensation as established in Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. The Executive Director of the 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. Refer to Note 11 for further information on this group rating program.

B. Fund Accounting

The 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 three categories of funds: governmental, proprietary and fiduciary.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

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 plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as fund balance. The following is the District's major governmental fund:

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

Other governmental funds of the District are used to account for specific revenue sources that are restricted to an expenditure for specified purposes.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of the District are included on the statement of net position.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, 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.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 5). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, see Notes 12 and 13 for deferred outflows of resources related the District's net pension liability and net OPEB liability/asset, respectively.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2019, but which were levied to finance fiscal year 2020 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet and represents receivables which will not be collected within the available period. For the District unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the District, see Notes 12 and 13 for deferred inflows of resources related to the District's net pension liability and net OPEB liability/asset, respectively. This deferred inflow of resources is only reported on the government-wide statement of net position.

Unearned Revenue - On the governmental fund financial statements and the statement of net position, unearned revenue is recorded as a liability for amounts resulting from exchange transactions received for services to be rendered by the District in a future reporting period.

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.

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established at the fund, function, and object level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Erie County Budget Commission for rate determination.

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' certificate of estimated resources, which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts from the original and final certificate of estimated resources issued for fiscal year 2019.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution is legally enacted at the fund, function, and object level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, all supplemental appropriations were legally enacted.

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

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

F. Cash and Investments

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

During fiscal year 2019, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

During fiscal year 2019, the District invested in STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The District measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2019 amounted to \$17,555, none of which is assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents.

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

G. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

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

Description	Governmental Activities Estimated Lives
Land improvements	15 years
Buildings and improvements	50 years
Furniture and equipment	5 - 20 years
Vehicles	20 years

H. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if (a) the employees' rights to payment are attributable to services already rendered; and (b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and all employees with at least 20 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

The District had no liability for vacation at June 30, 2019.

I. Accrued Liabilities and Long-Term Obligations

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds; however, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

J. Prepaid Items

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the funds balance is nonspendable on the fund financial statements by an amount equal to the carrying amount of the asset.

K. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable in the general fund.

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

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes, but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

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

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

L. Net Position

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

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

M. Estimates

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

N. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements. Transfers between governmental funds are eliminated for reporting on the government-wide statement of activities. Interfund services provided and used are not eliminated for reporting on the government-wide statement of activities.

The District had no interfund activity during the current fiscal year.

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2019.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

P. Pensions/Other Postemployment Benefits (OPEB)

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2019, the District has implemented GASB Statement No. 83, "Certain Asset Retirement Obligations" and GASB Statement No. 88, "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements".

GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the District.

GASB Statement No. 88 improves the information that is disclosed in notes to the basic financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The implementation of GASB Statement No. 88 did not have an effect on the financial statements of the District.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

A. Deposits with Financial Institutions

At June 30, 2019, the carrying amount of all District deposits was \$180,843 and the bank balance of all District deposits was \$182,236. Of the bank balance, all \$182,236 was covered by the FDIC and \$0 was potentially exposed to custodial credit risk discussed below because those deposits were uninsured and could be uncollateralized.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the District and deposited with a qualified trustee by the financial institution as security for repayment whose fair value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total fair value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For 2019, the District's financial institution pledged eligible securities to the District whose fair value was at least 105 percent of the deposits being secured. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the FDIC.

B. Investments

As of June 30, 2019, the District had the following investments and maturities:

<u>Measurement/ Investment type</u>	<u>Measurement Value</u>	<u>Investment Maturity</u> 6 months or less
Amortized Cost:		
STAR Ohio	\$ <u>894,593</u>	\$ <u>894,593</u>

The District's weighted average maturity for investments in STAR Ohio is 1 day.

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The District's policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the District.

Credit Risk: Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. STAR Ohio carries a rating of AAAM by Standard and Poor's.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount the District may invest in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2019:

<u>Measurement/ Investment type</u>	<u>Measurement Value</u>	<u>% of Total</u>
Amortized Cost:		
STAR Ohio	\$ <u>894,593</u>	<u>100.00</u>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2019:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 180,843
Investments	<u>894,593</u>
Total	<u>\$ 1,075,436</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 1,070,414
Private-purpose trust fund	2,869
Agency funds	<u>2,153</u>
Total	<u>\$ 1,075,436</u>

NOTE 5 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2019 represent the collection of calendar year 2018 taxes. Real property taxes received in calendar year 2019 were levied after April 1, 2018, on the assessed values as of January 1, 2018, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised fair 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 2019 represent the collection of calendar year 2018 taxes. Public utility real and personal property taxes received in calendar year 2019 became a lien on December 31, 2017, were levied after April 1, 2018, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Erie County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2019, are available to finance fiscal year 2019 operations. The amount available as an advance at June 30, 2019 was \$50,055 in the general fund and \$3,941 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2018 was \$50,055 in the general fund and \$3,941 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 5 - PROPERTY TAXES - (Continued)

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2019 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

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

The assessed values upon which the fiscal year 2019 taxes were collected are:

	2018 Second Half Collections		2019 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 77,394,130	98.72	\$ 85,324,350	98.88
Public utility personal	<u>1,001,250</u>	<u>1.28</u>	<u>963,260</u>	<u>1.12</u>
Total	<u>\$ 78,395,380</u>	<u>100.00</u>	<u>\$ 86,287,610</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$7.15		\$10.15	
Permanent improvement	0.50		0.50	

NOTE 6 - RECEIVABLES

Receivables at June 30, 2019 consisted of property taxes, accounts and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable conditions of State programs and the current year guarantee of federal funds.

Governmental activities:

Property taxes	\$ 772,012
Accounts	6,561
Intergovernmental	<u>4,319</u>
Total	<u>\$ 782,892</u>

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	Balance 6/30/18	Additions	Deductions	Balance 6/30/19
Governmental activities:				
<i>Capital assets, being depreciated:</i>				
Land improvements	\$ 46,698	\$ -	\$ -	\$ 46,698
Buildings and improvements	2,440,590	17,000	-	2,457,590
Furniture and equipment	133,182	-	-	133,182
Vehicles	21,636	-	-	21,636
	<u>2,642,106</u>	<u>17,000</u>	<u>-</u>	<u>2,659,106</u>
Total capital assets, being depreciated				
<i>Less: accumulated depreciation:</i>				
Land improvements	(46,698)	-	-	(46,698)
Buildings and improvements	(815,775)	(48,985)	-	(864,760)
Furniture and equipment	(119,410)	(2,276)	-	(121,686)
Vehicles	(1,262)	(1,082)	-	(2,344)
	<u>(983,145)</u>	<u>(52,343)</u>	<u>-</u>	<u>(1,035,488)</u>
Total accumulated depreciation				
Governmental activities capital assets, net	<u>\$ 1,658,961</u>	<u>\$ (35,343)</u>	<u>\$ -</u>	<u>\$ 1,623,618</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 48,329
<u>Support services:</u>	
Pupil	144
Instructional staff	256
Administration	256
Operations and maintenance	3,358
	<u>3,358</u>
Total depreciation expense	<u>\$ 52,343</u>

NOTE 8 - LONG-TERM OBLIGATIONS

During fiscal year 2019, the following changes occurred in governmental activities long-term obligations.

	Balance 6/30/18	Additions	Reductions	Balance 6/30/19	Amounts Due in One Year
Net pension liability	\$ 417,900	\$ 6,763	\$ (3,913)	\$ 420,750	\$ -
Net OPEB liability	102,513	1,503	(47,271)	56,745	-
Compensated absences	30,037	42	-	30,079	-
	<u>550,450</u>	<u>8,308</u>	<u>(51,184)</u>	<u>507,574</u>	<u>-</u>
Total					

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - LONG-TERM OBLIGATIONS - (Continued)

Net pension liability: The District's net pension liability is described in Note 12. The District pays obligations related to employee compensation from the fund benefitting from their service.

Net OPEB liability: The District's net OPEB liability is described in Note 13. The District pays obligations related to employee compensation from the fund benefitting from their service.

Compensated absences: The District's compensated absences will be paid from the fund from which employees' salaries are paid, which is primarily the general fund.

NOTE 9 - COMPENSATED ABSENCES

A. Sick Leave

Each full time professional staff member is entitled to 15 days sick leave with pay for each year under contract and accrues sick leave at the rate of 1-1/4 days for each calendar month under contract. Sick leave is cumulative to 180 days.

B. Service Retirement

Certified employees are eligible for service retirement pay after the Board of Education accepts the employee's resignation. The Board authorizes the payment to retiring or retired, certified and non-certified employees of 25 percent of his/her unused sick leave days at the time of retirement based on the daily rate per day times the value of the employee's eligible accrued, but unused sick leave days up to a maximum of 70 days. Criteria used to recognize the liability as being probable of payment was that employees must be 50 years old or greater with at least 10 years of service or have at least 20 years of service.

NOTE 10 - LEGAL DEBT MARGIN

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2019, are a voted debt margin of \$7,765,885 and an unvoted debt margin of \$86,288.

THIS SPACE IS INTENTIONALLY LEFT BLANK

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage through SORSA, an insurance purchasing pool (see note 2.A.) for liability, real property, building contents and equipment. In addition, real property contents are 90% coinsured. The following is a description of the District's insurance coverage:

<u>Coverage</u>	<u>Limits of Coverage</u>
General liability:	
Each occurrence	\$15,000,000
Aggregate	17,000,000
Building and contents	8,826,095
Equipment	50,000,000
Crime	1,000,000

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There has been no significant reduction in coverage from the prior fiscal year.

B. Health Insurance

The District provides employee health care benefits through the North Point Educational Service Center. The North Point Educational Service Center is a member district with the Huron-Erie School Employees Insurance Association (Association) to provide medical/surgical, dental, and life insurance benefits for its employees and their covered dependents. The Association is a shared risk pool comprised of 13 school districts that provide public education within Erie and Huron Counties (See note 2.A.). The District pays monthly contributions that are placed in a common fund from which eligible claims and expenses are paid for employees of participating school districts and their covered dependents. Claims are paid for all participants regardless of claims flow.

C. Workers' Compensation Group Rating Program

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). 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 the Ohio School Boards Association. The Executive Director of the 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.

The intent of the GRP is to achieve the benefit of a reduced premium for the 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. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 12 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full benefits	Age 65 with 5 years of services credit; or 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; or Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

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

Effective January 1, 2018, SERS cost-of-living adjustment (COLA) changed from a fixed 3% annual increase to one based on the Consumer Price Index (CPI-W) with a cap of 2.5% and a floor of 0%. SERS also has the authority to award or suspend the COLA, or to adjust the COLA above or below CPI-W. SERS suspended the COLA increases for 2018, 2019 and 2020 for current retirees, and confirmed their intent to implement a four-year waiting period for the state of a COLA for future retirees.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14% 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% for plan members and 14% 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, 2019, the allocation to pension, death benefits, and Medicare B was 13.5%. The remaining 0.5% of the employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$15,554 for fiscal year 2019. Of this amount, \$532 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

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

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.53% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47% of the 14% employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12% of the 14% member rate goes to the DC Plan and the remaining 2% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2019, plan members were required to contribute 14% of their annual covered salary. The District was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$36,127 for fiscal year 2019. Of this amount, \$975 is reported as pension and postemployment benefits payable.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities.

Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.00217730%	0.00121157%	
Proportion of the net pension liability current measurement date	<u>0.00220310%</u>	<u>0.00133972%</u>	
Change in proportionate share	<u>0.00002580%</u>	<u>0.00012815%</u>	
Proportionate share of the net pension liability	\$ 126,176	\$ 294,574	\$ 420,750
Pension expense	\$ 494	\$ 55,430	\$ 55,924

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 6,921	\$ 6,799	\$ 13,720
Changes of assumptions	2,850	52,205	55,055
Difference between employer contributions and proportionate share of contributions/change in proportionate share	1,031	62,953	63,984
Contributions subsequent to the measurement date	<u>15,554</u>	<u>36,127</u>	<u>51,681</u>
Total deferred outflows of resources	<u>\$ 26,356</u>	<u>\$ 158,084</u>	<u>\$ 184,440</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ -	\$ 1,924	\$ 1,924
Net difference between projected and actual earnings on pension plan investments	3,495	17,864	21,359
Difference between employer contributions and proportionate share of contributions/change in proportionate share	<u>4,174</u>	<u>104</u>	<u>4,278</u>
Total deferred inflows of resources	<u>\$ 7,669</u>	<u>\$ 19,892</u>	<u>\$ 27,561</u>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

\$51,681 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2020	\$ 6,159	\$ 52,393	\$ 58,552
2021	2,185	42,426	44,611
2022	(4,137)	6,387	2,250
2023	(1,074)	859	(215)
Total	\$ 3,133	\$ 102,065	\$ 105,198

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, 2018, are presented below:

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
COLA or ad hoc COLA	2.50%, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement
Investment rate of return	7.50% net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

For 2018, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

Discount Rate - The total pension liability was calculated using the discount rate of 7.50%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50%). 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.

THIS SPACE IS INTENTIONALLY LEFT BLANK

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50%, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%), or one percentage point higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 177,728	\$ 126,176	\$ 82,953

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation are presented below:

	July 1, 2018
Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment rate of return	7.45%, net of investment expenses, including inflation
Payroll increases	3.00%
Cost-of-living adjustments (COLA)	0.0%, effective July 1, 2017

For the July 1, 2018, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2018 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

THIS SPACE IS INTENTIONALLY LEFT BLANK

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

**The Target Allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

Discount Rate - The discount rate used to measure the total pension liability was 7.45% as of June 30, 2018. 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, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45%) or one-percentage-point higher (8.45%) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net pension liability	\$ 430,187	\$ 294,574	\$ 179,797

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 13 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability/Asset

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 13 - DEFINED BENEFIT OPEB PLANS - (Continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5% of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the District's surcharge obligation was \$636.

The surcharge added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$1,212 for fiscal year 2019. Of this amount, \$656 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14% of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

THIS SPACE IS INTENTIONALLY LEFT BLANK

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 13 - DEFINED BENEFIT OPEB PLANS - (Continued)

OPEB Liabilities/Assets, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability/asset was measured as of June 30, 2018, and the total OPEB liability/asset used to calculate the net OPEB liability/asset was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability/asset was based on the District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.00205840%	0.00121157%	
Proportion of the net OPEB liability/asset current measurement date	<u>0.00204540%</u>	<u>0.00133972%</u>	
Change in proportionate share	<u>-0.00001300%</u>	<u>0.00012815%</u>	
Proportionate share of the net OPEB liability	\$ 56,745	\$ -	\$ 56,745
Proportionate share of the net OPEB asset	\$ -	\$ (21,528)	\$ (21,528)
OPEB expense	\$ 2,027	\$ (45,938)	\$ (43,911)

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 926	\$ 2,514	\$ 3,440
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	-	4,568	4,568
Contributions subsequent to the measurement date	<u>1,212</u>	<u>-</u>	<u>1,212</u>
Total deferred outflows of resources	<u>\$ 2,138</u>	<u>\$ 7,082</u>	<u>\$ 9,220</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ -	\$ 1,254	\$ 1,254
Net difference between projected and actual earnings on pension plan investments	86	2,459	2,545
Changes of assumptions	5,099	29,333	34,432
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	<u>2,393</u>	<u>23</u>	<u>2,416</u>
Total deferred inflows of resources	<u>\$ 7,578</u>	<u>\$ 33,069</u>	<u>\$ 40,647</u>

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 13 - DEFINED BENEFIT OPEB PLANS - (Continued)

\$1,212 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability/asset in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2020	\$ (2,851)	\$ (4,711)	\$ (7,562)
2021	(2,280)	(4,711)	(6,991)
2022	(468)	(4,709)	(5,177)
2023	(434)	(4,152)	(4,586)
2024	(438)	(3,953)	(4,391)
Thereafter	(181)	(3,751)	(3,932)
Total	\$ (6,652)	\$ (25,987)	\$ (32,639)

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

THIS SPACE IS INTENTIONALLY LEFT BLANK

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 13 - DEFINED BENEFIT OPEB PLANS - (Continued)

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2018, are presented below:

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
Investment rate of return	7.50% net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.62%
Prior measurement date	3.56%
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.70%
Prior measurement date	3.63%
Medical trend assumption:	
Medicare	5.375 to 4.75%
Pre-Medicare	7.25 to 4.75%

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

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

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

THIS SPACE IS INTENTIONALLY LEFT BLANK

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 13 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70%. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2026. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62%, as of June 30, 2018 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. A municipal bond rate of 3.56% was used as of June 30, 2017. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

THIS SPACE IS INTENTIONALLY LEFT BLANK

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 13 - DEFINED BENEFIT OPEB PLANS - (Continued)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
District's proportionate share of the net OPEB liability	\$ 68,856	\$ 56,745	\$ 47,156

	1% Decrease (6.25 % decreasing to 3.75 %)	Current Trend Rate (7.25 % decreasing to 4.75 %)	1% Increase (8.25 % decreasing to 5.75 %)
District's proportionate share of the net OPEB liability	\$ 45,783	\$ 56,745	\$ 71,261

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation, compared with July 1, 2017, are presented below:

	July 1, 2018		July 1, 2017
Inflation	2.50%		2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65		12.50% at age 20 to 2.50% at age 65
Investment rate of return	7.45%, net of investment expenses, including inflation		7.45%, net of investment expenses, including inflation
Payroll increases	3.00%		3.00%
Cost-of-living adjustments (COLA)	0.00%		0.00%, effective July 1, 2017
Discounted rate of return	7.45%		N/A
Blended discount rate of return	N/A		4.13%
Health care cost trends			6 to 11% initial, 4.50% ultimate
	Initial	Ultimate	
Medical			
Pre-Medicare	6.00%	4.00%	
Medicare	5.00%	4.00%	
Prescription Drug			
Pre-Medicare	8.00%	4.00%	
Medicare	-5.23%	4.00%	

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 13 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Assumption Changes Since the Prior Measurement Date - The discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB). Valuation year per capita health care costs were updated.

Benefit Term Changes Since the Prior Measurement Date - The subsidy multiplier for non-Medicare benefit recipients was increased from 1.90% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

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

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

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

** The Target Allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

Discount Rate - The discount rate used to measure the total OPEB asset was 7.45% as of June 30, 2018. A discount rate used to measure the total OPEB liability was 4.13% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 13 - DEFINED BENEFIT OPEB PLANS - (Continued)

Therefore, the long-term expected rate of return on health care plan investments of 7.45% was used to measure the total OPEB asset as of June 30, 2018.

Sensitivity of the District's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45%, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45%) or one percentage point higher (8.45%) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net OPEB asset	\$ 18,451	\$ 21,528	\$ 24,114
	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB asset	\$ 23,968	\$ 21,528	\$ 19,050

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

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

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis); and,
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

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

Net Change in Fund Balance

	General fund
Budget basis	\$ (9,520)
Net adjustment for revenue accruals	6,818
Net adjustment for expenditure accruals	(818)
Net adjustment for other sources/uses	(6,402)
Adjustment for encumbrances	30,596
GAAP basis	\$ 20,674

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is not a party to legal proceedings that would have a material effect on the financial condition of the District.

C. Foundation Funding

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2017-2018 school year, traditional Districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year-end. As of the date of this report, additional ODE adjustments for fiscal year 2019 financial statements is not determinable at this time. Management believes this may result in either an additional receivable to, or a liability of, the District.

NOTE 16 - SET-ASIDES

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

The district had no set-aside requirements for fiscal year 2019.

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 17 - COMMITMENTS

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General	<u><u>\$ 22,210</u></u>

THIS PAGE IS INTENTIONALLY LEFT BLANK

REQUIRED SUPPLEMENTARY INFORMATION

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST SIX FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
District's proportion of the net pension liability	0.00220310%	0.00217730%	0.00220870%	0.00242890%
District's proportionate share of the net pension liability	\$ 126,176	\$ 130,089	\$ 161,656	\$ 138,595
District's covered payroll	\$ 73,252	\$ 72,264	\$ 68,614	\$ 73,118
District's proportionate share of the net pension liability as a percentage of its covered payroll	172.25%	180.02%	235.60%	189.55%
Plan fiduciary net position as a percentage of the total pension liability	71.36%	69.50%	62.98%	69.16%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>
0.00291200%	0.00291200%
\$ 147,375	\$ 173,167
\$ 84,632	\$ 54,176
174.14%	319.64%
71.70%	65.52%

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

	LAST SIX FISCAL YEARS			
	2019	2018	2017	2016
District's proportion of the net pension liability	0.00133972%	0.00121157%	0.00121214%	0.00083708%
District's proportionate share of the net pension liability	\$ 294,574	\$ 287,811	\$ 405,740	\$ 231,334
District's covered payroll	\$ 153,150	\$ 134,214	\$ 127,236	\$ 87,336
District's proportionate share of the net pension liability as a percentage of its covered payroll	192.34%	214.44%	318.89%	264.88%
Plan fiduciary net position as a percentage of the total pension liability	77.31%	75.30%	66.80%	72.10%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>
0.00080753%	0.00080753%
\$ 196,419	\$ 233,973
\$ 82,508	\$ 86,962
238.06%	269.05%
74.70%	69.30%

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

	LAST TEN FISCAL YEARS			
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 15,554	\$ 9,889	\$ 10,117	\$ 9,606
Contributions in relation to the contractually required contribution	<u>(15,554)</u>	<u>(9,889)</u>	<u>(10,117)</u>	<u>(9,606)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 115,215	\$ 73,252	\$ 72,264	\$ 68,614
Contributions as a percentage of covered payroll	13.50%	13.50%	14.00%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 9,637	\$ 11,730	\$ 7,498	\$ 7,457	\$ 8,356	\$ 8,867
<u>(9,637)</u>	<u>(11,730)</u>	<u>(7,498)</u>	<u>(7,457)</u>	<u>(8,356)</u>	<u>(8,867)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 73,118	\$ 84,632	\$ 54,176	\$ 55,442	\$ 66,476	\$ 65,487
13.18%	13.86%	13.84%	13.45%	12.57%	13.54%

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

	LAST TEN FISCAL YEARS			
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 36,127	\$ 21,441	\$ 18,790	\$ 17,813
Contributions in relation to the contractually required contribution	<u>(36,127)</u>	<u>(21,441)</u>	<u>(18,790)</u>	<u>(17,813)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 258,050	\$ 153,150	\$ 134,214	\$ 127,236
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 12,227	\$ 10,726	\$ 11,305	\$ 35,905	\$ 41,880	\$ 50,206
<u>(12,227)</u>	<u>(10,726)</u>	<u>(11,305)</u>	<u>(35,905)</u>	<u>(41,880)</u>	<u>(50,206)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 87,336	\$ 82,508	\$ 86,962	\$ 276,192	\$ 322,154	\$ 386,200
14.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability	0.00204540%	0.00205840%	0.00209162%
District's proportionate share of the net OPEB liability	\$ 56,745	\$ 55,242	\$ 59,619
District's covered payroll	\$ 73,252	\$ 72,264	\$ 68,614
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	77.47%	76.44%	86.89%
Plan fiduciary net position as a percentage of the total OPEB liability	13.57%	12.46%	11.49%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST THREE FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability/asset	0.00133972%	0.00121157%	0.00121214%
District's proportionate share of the net OPEB liability/(asset)	\$ (21,528)	\$ 47,271	\$ 64,826
District's covered payroll	\$ 153,150	\$ 134,214	127,236
District's proportionate share of the net OPEB liability/asset as a percentage of its covered payroll	14.06%	35.22%	50.95%
Plan fiduciary net position as a percentage of the total OPEB liability/asset	176.00%	47.10%	37.33%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

	LAST TEN FISCAL YEARS			
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 1,212	\$ 629	\$ 423	\$ 429
Contributions in relation to the contractually required contribution	<u>(1,212)</u>	<u>(629)</u>	<u>(423)</u>	<u>(429)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 115,215	\$ 73,252	\$ 72,264	\$ 68,614
Contributions as a percentage of covered payroll	1.05%	0.86%	0.59%	0.63%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 758	\$ 1,688	\$ 1,196	\$ 1,361	\$ 1,837	\$ 1,561
<u>(758)</u>	<u>(1,688)</u>	<u>(1,196)</u>	<u>(1,361)</u>	<u>(1,837)</u>	<u>(1,561)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 73,118	\$ 84,632	\$ 54,176	\$ 55,442	\$ 66,476	\$ 65,487
1.04%	1.99%	2.21%	2.45%	2.76%	2.38%

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

	LAST TEN FISCAL YEARS			
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 258,050	\$ 153,150	\$ 134,214	\$ 127,236
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ -	\$ 769	\$ 870	\$ 2,762	\$ 3,222	\$ 3,862
-	(769)	(870)	(2,762)	(3,222)	(3,862)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 87,336	\$ 82,508	\$ 86,962	\$ 276,192	\$ 322,154	\$ 386,200
0.00%	1.00%	1.00%	1.00%	1.00%	1.00%

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

PENSION

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the changes in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%. There were no changes in benefit terms from the amounts previously reported for fiscal year 2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2018-2019.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, STRS decreased the Cost of Living Adjustment (COLA) to zero. There were no changes in benefit terms from amounts previously reported for fiscal year 2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumption affected the total pension liability since the prior measurement date: (a) the long term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation (e) the healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016 and (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2019.

(Continued)

**KELLEYS ISLAND LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts previously reported for fiscal years 2017-2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement, and disability were updated to reflect recent experience, (e) mortality among active members was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to the following: RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement, (h) the municipal bond index rate increased from 2.92% to 3.56% and (i) the single equivalent interest rate, net of plan investment expense, including price inflation increased from 2.98% to 3.63%. For fiscal year 2019, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the discount rate increased from 3.63% to 3.70%, (b) the health care cost trend rate for Medicare were changed from a range of 5.50%-5.00% to a range of 5.375%-4.75% and Pre-Medicare were changed from a range of 7.50%-5.00% to a range of 7.25%-4.75%, (c) the municipal bond index rate increased from 3.56% to 3.62% and (i) the single equivalent interest rate, net of plan investment expense, including price inflation increased from 3.63% to 3.70%.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts previously reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. For fiscal year 2019, STRS increased the subsidy multiplier for non-Medicare benefit recipients from 1.9% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) the percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs. For fiscal year 2019, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and (b) decrease in trend rates from 6.00%-11.00 initial; 4.50% ultimate down to Medical Pre-Medicare 6.00% and Medicare 5.00% initial; 4.00% ultimate and Prescription Drug Pre-Medicare 8.00% and Medicare (5.23%) initial; 4.00% ultimate.

THIS PAGE IS INTENTIONALLY LEFT BLANK



ALGER & ASSOCIATES, Inc.

Certified Public Accountants

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

Kelleys Island Local School District
Erie County
528 Division Street, P.O. Box 349
Kelleys Island, Ohio 43438-0349

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Kelleys Island Local School District, Erie County, (the District) as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 12, 2019.

Internal Control Over Financial Reporting

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

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

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

6927 Burgundy Ave. N.W.
North Canton, OH 44720
Phone (330) 353-5851
Fax (330) 768-7574


Compliance and Other Matters

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

Purpose of this Report

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

Karen S
Alger, CPA



Digitally signed by Karen S Alger,
CPA
DN: cn=Karen S Alger, CPA,
o=Alger & Associates, Inc, ou,
email=ksalger46@att.net, c=US
Date: 2019.12.11 13:40:55 -05'00'

Alger & Associates, Inc.
Certified Public Accountants
North Canton, OH
December 12, 2019

OHIO AUDITOR OF STATE KEITH FABER



KELLEYS ISLAND LOCAL SCHOOL DISTRICT

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 21, 2020**