



Dave Yost • Auditor of State

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Madison Local School District
Lake County
1956 Redbird Road
Madison, Ohio 44057

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Madison Local School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2016, 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 the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for 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 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 cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Madison Local School District, Lake County, Ohio, as of June 30, 2016, and the respective changes in cash financial position and the respective budgetary comparisons for the General Fund and Classroom Facilities Maintenance Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Matters

Supplemental Information

Our audit was conducted to opine on the financial statements taken as a whole.

The Federal Awards Expenditures Schedule presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

We applied no procedures to Management's Discussion & Analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2016, 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

November 10, 2016

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Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

The discussion and analysis of the Madison Local School District's (the District) financial performance provides an overall review of the District's financial activities for the year ended June 30, 2016, within the limitation of the District's cash basis accounting. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the 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 2016 are:

- Net position of governmental activities increased by \$1,922,989.
- General receipts accounted for \$29,355,037 in revenue or 85.0 percent of all receipts. Program specific receipts in the form of charges for services and operating and capital grants and contributions accounted for \$5,179,590 or 15.0 percent of total receipts of \$34,534,627.
- The District had \$31,504,172 in disbursements related to governmental activities; \$4,035,776 of these disbursements was offset by program specific charges for services, operating and capital grants and contributions.
- The General Fund had \$25,862,629 (includes other financing sources) in receipts and \$24,524,967 (includes other financing uses) in expenditures. The General Fund's balance increased to \$3,216,744 from \$1,879,082.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements based on the District's cash basis of accounting. 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 nonmajor funds presented in total in one column. In the case of the District, the General Fund, Classroom Facilities Maintenance Fund, Bond Retirement Fund and Permanent Improvement Fund are the most significant funds.

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

Reporting the School District as a Whole

Statement of Net Position and Statement of Activities

While this document contains information about 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 we do financially during 2016?” The Statement of Net Position and Statement of Activities answer this question, within the limitation of the District’s cash basis accounting. These statements use the cash basis method of accounting.

These two statements report the District’s *net position* and changes in that net position. This change in net position is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished, within the limitation of the District’s cash basis accounting. 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, required educational programs, and other factors.

In the Statement of Net Position and Statement of Activities, the District reports governmental activities and business-type activities. Governmental activities are the activities where most of the District’s programs and services are reported including, but not limited to, instruction, supporting services, operation and maintenance of plant, pupil transportation, and extracurricular activities. Business-type activities provide services on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The District’s Food Services Fund, Uniform School Supplies Fund, Special Enterprise Fund (no activity in 2016), and Special Rotary Fund are reported as business-type activities.

Reporting the District’s Most Significant Funds

Fund Financial Statements

The analysis of the District’s major funds begins on page 10 of the financial statements. Fund financial reports provide detailed information about the District’s major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District’s most significant funds. The District’s major governmental funds are the General Fund, Classroom Facilities Maintenance Fund, Bond Retirement Fund, Permanent Improvement Fund and the Classroom Facilities 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 cash basis method of accounting. The governmental fund statements provide a detailed view of the District’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent to finance educational programs.

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

The District as a Whole

Recall that the Statement of Net Position provides the perspective of the District as a whole. Table 1 provides a summary of the District’s net position for 2016 compared to 2015:

Table 1 - Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
ASSETS						
Equity in Pooled Cash and Cash Equivalents	\$ 5,899,757	\$ 3,976,768	\$ 97,697	\$ 113,367	\$ 5,997,454	\$ 4,090,135
Total Assets	<u>5,899,757</u>	<u>3,976,768</u>	<u>97,697</u>	<u>113,367</u>	<u>5,997,454</u>	<u>4,090,135</u>
NET POSITION						
Restricted	2,683,013	2,102,383	-	-	2,683,013	2,102,383
Unrestricted	3,216,744	1,874,385	97,697	113,367	3,314,441	1,987,752
Total Net Position	<u>\$ 5,899,757</u>	<u>\$ 3,976,768</u>	<u>\$ 97,697</u>	<u>\$ 113,367</u>	<u>\$ 5,997,454</u>	<u>\$ 4,090,135</u>

Total assets increased by \$1,907,319, which is solely related to increased cash and cash equivalents. Restricted net position of the District increased by \$580,630.

Table 2 shows the changes in net position for fiscal year 2016 and also presents a comparative analysis to fiscal year 2015 for governmental activities, business-type activities, and both governmental and business-type activities combined.

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

Table 2 - Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
RECEIPTS						
Program Receipts:						
Charges for services	\$ 2,217,984	\$ 2,171,849	\$ 554,094	\$ 567,184	\$ 2,772,078	\$ 2,739,033
Operating grants and contributions	1,768,985	1,929,897	589,720	587,105	2,358,705	2,517,002
Capital grants and contributions	48,807	163,452	-	-	48,807	163,452
Total Program Receipts	4,035,776	4,265,198	1,143,814	1,154,289	5,179,590	5,419,487
General Receipts:						
Property taxes	11,536,219	11,174,441	-	-	11,536,219	11,174,441
Grants and entitlements	15,835,555	16,481,927	-	-	15,835,555	16,481,927
Contributions and Donations	-	27,284	-	-	-	27,284
Investment income	11,843	3,139	-	-	11,843	3,139
Debt Proceeds	1,720,098	1,467,309	-	-	1,720,098	1,467,309
Sale of Assets	7,000	362,055	700	-	7,700	362,055
All other revenues	243,589	193,025	33	-	243,622	193,025
Total General Receipts	29,354,304	29,709,180	733	-	29,355,037	29,709,180
Total Receipts	33,390,080	33,974,378	1,144,547	1,154,289	34,534,627	35,128,667
DISBURSEMENTS						
Program Disbursements:						
Instruction:						
Regular	12,715,452	12,921,555	-	-	12,715,452	12,921,555
Special	4,335,981	4,490,749	-	-	4,335,981	4,490,749
Vocational	96,506	93,771	-	-	96,506	93,771
Supporting Services:						
Pupil	1,714,700	1,596,645	-	-	1,714,700	1,596,645
Instructional Staff	199,943	153,241	-	-	199,943	153,241
Board of Education	125,402	213,718	-	-	125,402	213,718
Administration	2,155,650	2,104,011	-	-	2,155,650	2,104,011
Fiscal	694,174	611,703	-	-	694,174	611,703
Business	109,703	113,178	-	-	109,703	113,178
Operation and Maintenance of Plant	2,325,790	2,436,787	-	-	2,325,790	2,436,787
Pupil Transportation	2,408,754	2,120,653	-	-	2,408,754	2,120,653
Central	515,543	509,447	-	-	515,543	509,447
Operation of Non-Instructional Services	70,402	71,676	-	-	70,402	71,676
Extracurricular Activities	766,220	769,193	-	-	766,220	769,193
Capital Outlay	361,453	1,124,481	-	-	361,453	1,124,481
Debt Service:						
Principal Retirement	1,755,000	3,069,999	-	-	1,755,000	3,069,999
Interest and Fiscal Charges	1,142,564	1,196,423	-	-	1,142,564	1,196,423
Payment to Bond Escrow	-	-	-	-	-	-
Bond Issuance Cost	10,935	10,335	-	-	10,935	10,335
Food Services	-	-	875,216	880,230	875,216	880,230
Special Rotary	-	-	247,920	233,099	247,920	233,099
Total Disbursements	31,504,172	33,607,565	1,123,136	1,113,329	32,627,308	34,720,894
Advances	37,081	(3,106)	(37,081)	3,106	-	-
Change in Net Position	1,922,989	363,707	(15,670)	44,066	1,907,319	407,773
Net Position - Beginning of Year	3,976,768	3,613,061	113,367	69,301	4,090,135	3,682,362
Net Position - End of Year	\$ 5,899,757	\$ 3,976,768	\$ 97,697	\$ 113,367	\$ 5,997,454	\$ 4,090,135

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by the levy will not increase as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and its value was increased to \$200,000 (and this inflationary increase in value is comparable to other property owners), the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 34.55 percent of receipts for governmental activities for the District in fiscal year 2016.

Grants and entitlements decreased by \$646,372 as a result of two years of catastrophic costs received in fiscal year 2015.

Instruction comprises 54.43 percent of governmental program disbursements decreased by \$358,136 as a result of decreased out of district special education tuition cost. Supporting Services – Pupil Transportation increased \$288,101 due to the purchase of a new bus. Capital outlay decreased \$763,028 as a result of the construction of the new school buildings finalized during fiscal year 2015. Principal Retirement decreased \$1,314,999 due to Building Bonds paid off in fiscal year 2015.

The Statement of Activities shows the cost of program services and the charges for services and grants and contributions offsetting those services. Table 3 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 entitlements. A comparative analysis of 2016 to 2015 is presented.

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

Table 3 - Governmental Activities

	Total Cost of Services 2016	Total Cost of Services 2015	Net Cost of Services 2016	Net Cost of Services 2015
Instruction	\$ 17,147,939	\$ 17,506,075	\$ (14,412,763)	\$ (14,881,514)
Supporting Services:				
Pupils and Instructional Staff	1,914,643	1,749,886	(1,298,687)	(1,145,653)
Board of Education, Administration, Fiscal, and Business	3,084,929	3,042,610	(2,934,546)	(2,894,796)
Operation and Maintenance of Plant	2,325,790	2,436,787	(2,294,259)	(2,400,240)
Pupil Transportation	2,408,754	2,120,653	(2,406,043)	(2,084,248)
Central	515,543	509,447	(508,343)	(502,247)
Operation of Non-Instructional Services	70,402	71,676	(68,358)	(36,603)
Extracurricular Activities	766,220	769,193	(324,252)	(159,280)
Capital Outlay	361,453	1,124,481	(312,646)	(961,029)
Debt Services	2,908,499	4,276,757	(2,908,499)	(4,276,757)
Total cost of service	<u>\$ 31,504,172</u>	<u>\$ 33,607,565</u>	<u>\$ (27,468,396)</u>	<u>\$ (29,342,367)</u>

The District's Funds

The District's major funds are accounted for using the cash basis of accounting. All governmental funds had total receipts of \$34,203,720 (includes other financing sources) and disbursements of \$32,280,731 (includes other financing uses). The net change in fund balance for the year was most significant in the General Fund, an increase of \$1,337,662 and the Bond Retirement Fund, an increase of 852,668. This increase was a result of the program reductions made during the year and the increase in the Bond Retirement Fund balance was a result of decrease in principal payments in fiscal year 2016 and the establishment of a sinking fund.

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, the original budget basis receipts of \$25,202,500 (including other financing sources) were increased in the final budget basis receipts to \$25,769,276. During fiscal year 2016, the District's final budget basis receipts for property taxes were \$8,282,692.

The original appropriations of \$26,273,380 (including other financing uses) were increased in the final budget basis appropriations to \$26,296,500.

Management Discussion and Analysis

For the Fiscal Year Ended June 30, 2016

Debt Administration

Debt

At June 30, 2016, the District had \$23,483,703 in bonds, notes, premiums, and accounting loss on refunding outstanding.

Table 4 summarizes outstanding debt. Also see Notes 12 and 13 to the basic financial statements for more detail.

Table 4 - Outstanding Debt as of June 30th

	Governmental Activities	
	2016	2015
Building Bonds	\$ 20,610,000	\$ 20,910,000
Premiums on Bonds	913,494	972,595
Accounting Loss on Refunding	(1,879)	(3,205)
Capital Appreciation Bonds (including bond accretion)	248,722	205,870
Tax Anticipation Notes (TANs)	255,000	-
Bond Anticipation Notes (BANs)	1,455,000	1,455,000
Premium on BANs	3,366	4,103
Total outstanding debt	\$ 23,483,703	\$ 23,544,363

Economic Factors

The District is dependent on its local taxpayers. Based on the current financial information, the budget cuts enacted in prior fiscal years, and the ability to maintain current program and staffing levels, the District will be able to maintain financial stability.

Based on these factors, the Board of Education and administration of the District must maintain careful financial planning and prudent fiscal management in order to preserve the financial stability of the District, as well as careful planning to ensure that significant outlays may be made in the future to address the District's facilities needs.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Michael J. Vaccariello, Treasurer/CFO at Madison Local School District, 1956 Red Bird Road, Madison, Ohio 44057 or email at Michael.Vaccariello@madisonschools.net.

Statement of Net Position – Cash Basis

June 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Equity in Pooled Cash and Cash Equivalents	\$ 5,349,757	\$ 97,697	\$ 5,447,454
Restricted Assets:			
Investments	550,000	-	550,000
Total Assets	5,899,757	97,697	5,997,454
 NET POSITION			
Restricted for:			
Special Revenue	1,102,625	-	1,102,625
Debt Service	886,561	-	886,561
Capital Projects	693,827	-	693,827
Unrestricted	3,216,744	97,697	3,314,441
Total Net Position	\$ 5,899,757	\$ 97,697	\$ 5,997,454

See accompanying notes to the basic financial statements.

Madison Local School District, Lake County

Statement of Activities - Cash Basis

For the Fiscal Year Ended June 30, 2016

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Position		
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities							
Instruction:							
Regular	\$ 12,715,452	\$ 1,776,016	\$ 205,447	\$ -	\$ (10,733,989)	\$ -	\$ (10,733,989)
Special	4,335,981	-	753,713	-	(3,582,268)	-	(3,582,268)
Vocational	96,506	-	-	-	(96,506)	-	(96,506)
Support Services:							
Pupils	1,714,700	-	615,956	-	(1,098,744)	-	(1,098,744)
Instructional Staff	199,943	-	-	-	(199,943)	-	(199,943)
Board of Education	125,402	-	-	-	(125,402)	-	(125,402)
Administration	2,155,650	-	107,553	-	(2,048,097)	-	(2,048,097)
Fiscal Services	694,174	-	42,830	-	(651,344)	-	(651,344)
Business	109,703	-	-	-	(109,703)	-	(109,703)
Operation and Maintenance of Plant	2,325,790	-	31,531	-	(2,294,259)	-	(2,294,259)
Pupil Transportation	2,408,754	-	2,711	-	(2,406,043)	-	(2,406,043)
Central	515,543	-	7,200	-	(508,343)	-	(508,343)
Operation of Non-Instructional Services:							
Food Service Operations	7,746	-	1,723	-	(6,023)	-	(6,023)
Community Services	10,450	-	321	-	(10,129)	-	(10,129)
Other Operations	52,206	-	-	-	(52,206)	-	(52,206)
Extracurricular Activities	766,220	441,968	-	-	(324,252)	-	(324,252)
Capital Outlay	361,453	-	-	48,807	(312,646)	-	(312,646)
Debt Service:							
Principal Retirement	1,755,000	-	-	-	(1,755,000)	-	(1,755,000)
Interest and Fiscal Charges	1,142,564	-	-	-	(1,142,564)	-	(1,142,564)
Bond Issuance Costs	10,935	-	-	-	(10,935)	-	(10,935)
Total Governmental Activities	<u>31,504,172</u>	<u>2,217,984</u>	<u>1,768,985</u>	<u>48,807</u>	<u>(27,468,396)</u>	<u>-</u>	<u>(27,468,396)</u>
Business-Type Activities							
Food Service	875,216	295,044	589,720	-	-	9,548	9,548
Special Rotary	247,920	259,050	-	-	-	11,130	11,130
Total Business-Type Activities	<u>1,123,136</u>	<u>554,094</u>	<u>589,720</u>	<u>-</u>	<u>-</u>	<u>20,678</u>	<u>20,678</u>
Total	<u>\$ 32,627,308</u>	<u>\$ 2,772,078</u>	<u>\$ 2,358,705</u>	<u>\$ 48,807</u>	<u>(27,468,396)</u>	<u>20,678</u>	<u>(27,447,718)</u>
General Receipts							
Property Taxes levied for:							
General Purposes					8,282,692	-	8,282,692
Debt Service					1,500,690	-	1,500,690
Capital Projects					169,645	-	169,645
Special Purposes					1,583,192	-	1,583,192
Grants & Entitlements not Restricted to Specific Programs					15,835,555	-	15,835,555
Interest					11,843	-	11,843
Sale of Assets					7,000	700	7,700
Miscellaneous					243,589	33	243,622
Debt Proceeds					1,720,098	-	1,720,098
Advances					37,081	(37,081)	-
Total General Receipts					<u>29,391,385</u>	<u>(36,348)</u>	<u>29,355,037</u>
Change in Net Position					1,922,989	(15,670)	1,907,319
Net Position - Beginning of Year					3,976,768	113,367	4,090,135
Net Position - End of Year					<u>\$ 5,899,757</u>	<u>\$ 97,697</u>	<u>\$ 5,997,454</u>

See accompanying notes to the basic financial statements.

Madison Local School District, Lake County

**Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2016**

	<u>General</u>	<u>Classroom Facilities Maintenance</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Equity in Pooled Cash and Cash Equivalents	\$ 3,216,744	\$ 596,404	\$ 336,561	\$ 682,777	\$ 517,271	\$ 5,349,757
Restricted Assets:						
Investments	-	-	550,000	-	-	550,000
Total Assets	<u>\$ 3,216,744</u>	<u>\$ 596,404</u>	<u>\$ 886,561</u>	<u>\$ 682,777</u>	<u>\$ 517,271</u>	<u>\$ 5,899,757</u>
Fund Balances						
Restricted	\$ -	\$ 596,404	\$ 886,561	\$ 682,777	\$ 517,271	\$ 2,683,013
Committed	62,899	-	-	-	-	62,899
Assigned	1,666,170	-	-	-	-	1,666,170
Unassigned	1,487,675	-	-	-	-	1,487,675
Total Fund Balances	<u>\$ 3,216,744</u>	<u>\$ 596,404</u>	<u>\$ 886,561</u>	<u>\$ 682,777</u>	<u>\$ 517,271</u>	<u>\$ 5,899,757</u>

See accompanying notes to the basic financial statements.

Madison Local School District, Lake County

Statement of Receipts, Disbursements and Changes in Fund Balances - Cash Basis Governmental Funds For the Fiscal Year Ended June 30, 2016

	General	Classroom Facilities Maintenance	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
RECEIPTS						
Property Taxes	\$ 8,282,692	\$ 160,256	\$ 1,500,690	\$ 169,645	\$ 1,422,936	\$ 11,536,219
Intergovernmental	15,298,856	56,924	820,484	21,194	1,455,889	17,653,347
Earnings on Investments	9,486	-	-	-	2,357	11,843
Tuition	1,680,587	-	-	-	-	1,680,587
Extracurricular Activities	133,127	-	-	-	264,543	397,670
Rentals	44,298	-	-	-	-	44,298
Classroom Materials and Fees	95,429	-	-	-	-	95,429
Miscellaneous	226,187	-	-	-	17,402	243,589
Total Receipts	<u>25,770,662</u>	<u>217,180</u>	<u>2,321,174</u>	<u>190,839</u>	<u>3,163,127</u>	<u>31,662,982</u>
DISBURSEMENTS						
Current:						
Instruction:						
Regular	12,578,141	-	-	-	137,311	12,715,452
Special	3,537,045	-	-	-	802,034	4,339,079
Vocational	96,506	-	-	-	-	96,506
Support Services:						
Pupils	1,238,531	-	-	-	476,169	1,714,700
Instructional Staff	186,907	-	-	-	13,036	199,943
Board of Education	125,402	-	-	-	-	125,402
Administration	1,963,628	-	-	-	192,022	2,155,650
Fiscal Services	660,323	2,750	28,169	2,932	-	694,174
Business	109,703	-	-	-	-	109,703
Operation and Maintenance of Plant	2,091,335	141,707	-	89,817	2,931	2,325,790
Pupil Transportation	543,348	-	-	439,211	1,426,195	2,408,754
Central	507,679	-	-	-	7,864	515,543
Operation of Non-Instructional Services:						
Food Service Operations	-	7,746	-	-	-	7,746
Community Services	-	-	-	-	10,450	10,450
Other Operations	52,206	-	-	-	-	52,206
Extracurricular Activities	443,397	-	-	6,962	315,861	766,220
Capital Outlay	-	-	-	-	361,453	361,453
Debt Service:						
Principal Retirement	-	-	1,755,000	-	-	1,755,000
Interest and Fiscal Charges	-	-	1,142,564	-	-	1,142,564
Bond Issuance Costs	-	-	10,935	-	-	10,935
Total Disbursements	<u>24,134,151</u>	<u>152,203</u>	<u>2,936,668</u>	<u>538,922</u>	<u>3,745,326</u>	<u>31,507,270</u>
Excess of Receipts Over (Under) Disbursements	<u>1,636,511</u>	<u>64,977</u>	<u>(615,494)</u>	<u>(348,083)</u>	<u>(582,199)</u>	<u>155,712</u>

(Continued)

Madison Local School District, Lake County

**Statement of Receipts, Disbursements and Changes in Fund Balances - Cash Basis
Governmental Funds (Continued)
For the Fiscal Year Ended June 30, 2016**

	General	Classroom Facilities Maintenance	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
OTHER FINANCING SOURCES (USES)						
Sale of Assets	-	-	-	7,000	-	7,000
Premium on Debt Issued	-	-	10,098	-	-	10,098
Tax Anticipation Notes Issued	-	-	-	255,000	-	255,000
Refunding Bond Anticipation Notes Issued	-	-	1,455,000	-	-	1,455,000
Refund of Prior Year Expenditures	-	-	-	-	3,098	3,098
Advances In	91,967	-	-	-	-	91,967
Advances Out	-	-	-	-	(54,886)	(54,886)
Transfers In	-	-	3,064	324,695	390,816	718,575
Transfers Out	(390,816)	-	-	(3,064)	(324,695)	(718,575)
Total Other Financing Sources (Uses)	(298,849)	-	1,468,162	583,631	14,333	1,767,277
Net Change in Fund Balances	1,337,662	64,977	852,668	235,548	(567,866)	1,922,989
Fund Balances - Beginning of Year	1,879,082	531,427	33,893	447,229	1,085,137	3,976,768
Fund Balances - End of Year	\$ 3,216,744	\$ 596,404	\$ 886,561	\$ 682,777	\$ 517,271	\$ 5,899,757

See accompanying notes to the basic financial statements.

Madison Local School District, Lake County

Statement of Receipts, Disbursements and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual – General Fund For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
Receipts				
Property Taxes	\$ 8,200,178	\$ 8,200,178	\$ 8,282,692	\$ 82,514
Intergovernmental	15,030,692	15,499,047	15,298,856	(200,191)
Earnings on Investments	500	516	9,486	8,970
Tuition	1,555,000	1,603,454	1,680,587	77,133
Extracurricular Activities	76,000	78,368	72,413	(5,955)
Rentals	40,000	41,246	44,298	3,052
Classroom Materials and Fees	81,000	83,524	95,429	11,905
Contributions and Donations	10,000	10,312	-	(10,312)
Miscellaneous	101,000	144,502	264,295	119,793
Total Receipts	<u>25,094,370</u>	<u>25,661,147</u>	<u>25,748,056</u>	<u>86,909</u>
Disbursements				
Current:				
Instruction				
Regular	13,049,936	13,049,936	12,688,400	361,536
Special	3,747,740	3,747,740	3,894,148	(146,408)
Vocational	70,642	70,642	96,699	(26,057)
Support Services				
Pupils	1,264,051	1,264,051	1,386,129	(122,078)
Instructional Staff	171,314	171,314	189,943	(18,629)
Board of Education	265,071	265,071	210,480	54,591
Administration	1,983,154	1,983,154	1,968,579	14,575
Fiscal Services	640,977	640,977	720,301	(79,324)
Business	120,405	120,405	114,095	6,310
Operation and Maintenance of Plant	2,539,277	2,539,277	2,340,431	198,846
Pupil Transportation	796,549	796,549	866,045	(69,496)
Central	639,211	639,211	675,624	(36,413)
Operation of Non-Instructional Services				
Other	43,974	67,094	52,289	14,805
Extracurricular Activities				
Academic Oriented Activities	60,550	60,550	55,991	4,559
Sport Oriented Activities	382,157	382,157	361,454	20,703
Co-Curricular Activities	48,372	48,372	34,634	13,738
Debt Service:				
Principal	-	-	145,500	(145,500)
Total Disbursements	<u>25,823,380</u>	<u>25,846,500</u>	<u>25,800,742</u>	<u>45,758</u>
Excess of Receipts Over(Under) Disbursements	<u>(729,010)</u>	<u>(185,353)</u>	<u>(52,686)</u>	<u>132,667</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	-	-	4,395	4,395
Advances In	108,130	108,130	108,131	1
Advances Out	(150,000)	(150,000)	(16,164)	133,836
Transfers In	-	-	4,697	4,697
Transfers Out	(300,000)	(300,000)	(390,816)	(90,816)
Total Other Financing Sources (Uses)	<u>(341,870)</u>	<u>(341,870)</u>	<u>(289,757)</u>	<u>52,113</u>
Net Change in Fund Balance	(1,070,880)	(527,223)	(342,443)	184,780
Fund Balance - Beginning of Year	784,900	784,900	784,900	-
Prior Year Encumbrances Appropriated	1,065,099	1,065,099	1,065,099	-
Fund Balance - End of Year	<u>\$ 779,119</u>	<u>\$ 1,322,776</u>	<u>\$ 1,507,556</u>	<u>\$ 184,780</u>

See accompanying notes to the basic financial statements.

Madison Local School District, Lake County

**Statement of Receipts, Disbursements and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual – Classroom Facilities Maintenance Fund
For the Fiscal Year Ended June 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property Taxes	\$ 150,000	\$ 160,256	\$ 160,256	\$ -
Intergovernmental	-	56,924	56,924	-
Total Receipts	<u>150,000</u>	<u>217,180</u>	<u>217,180</u>	<u>-</u>
Disbursements				
Current:				
Support Services				
Fiscal Services	7,227	7,227	2,750	4,477
Operation and Maintenance of Plant	402,554	402,554	203,843	198,711
Operation of Non-Instructional Services				
Food Service Operations	21,157	21,157	7,746	13,411
Total Disbursements	<u>430,938</u>	<u>430,938</u>	<u>214,339</u>	<u>216,599</u>
Net Change in Fund Balance	(280,938)	(213,758)	2,841	216,599
Fund Balance - Beginning of Year	466,622	466,622	466,622	-
Prior Year Encumbrances Appropriated	30,938	30,938	30,938	-
Fund Balance - End of Year	<u>\$ 216,622</u>	<u>\$ 283,802</u>	<u>\$ 500,401</u>	<u>\$ 216,599</u>

See accompanying notes to the basic financial statements.

**Statement of Fund Net Position – Cash Basis
Proprietary Funds
June 30, 2016**

	Business- Type Activities Non-Major Enterprise Funds
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 97,697
NET POSITION	
Unrestricted	\$ 97,697

See accompany notes to the basic financial statements.

**Statement of Receipts, Disbursements and Changes in Fund Net Position – Cash Basis
Proprietary Funds
For the Fiscal Year Ended June 30, 2016**

	Business-Type Activities
	Non-Major Enterprise Funds
OPERATING RECEIPTS	
Tuition	\$ 259,050
Food Services	295,044
Miscellaneous	33
Total Operating Receipts	554,127
OPERATING DISBURSEMENTS	
Salaries and Wages	464,411
Retirement and Insurance	182,640
Purchased Services	109,956
Materials and Supplies	362,122
Other	4,007
Total Operating Disbursements	1,123,136
Operating Loss	(569,009)
NON-OPERATING RECEIPTS AND DISBURSEMENTS	
Gain on Sale of Capital Assets	700
Intergovernmental	589,720
(Advances Out)	(37,081)
Total Non-operating Receipts and Disbursements	553,339
Change in Net Position	(15,670)
Net Position - Beginning of Year	113,367
Net Position - End of Year	\$ 97,697

See accompany notes to the basic financial statements.

Statement of Fiduciary Net Position – Cash Basis
Agency Fund
June 30, 2016

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 57,997
Net Position	
Unrestricted	\$ 57,997

See accompanying notes to the basic financial statements.

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 1: REPORTING ENTITY

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

The School District was established in 1968 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 41 square miles. It is located mostly in Lake County, partially in Geauga County, and includes all of the territory of the Village of Madison and Madison Township, and a portion of Thompson Township. It is staffed by 105 non-certified employees, 173 certified full-time teaching personnel, and 17 administrators who provide services to 3,097 students and other community members. The School District currently operates four instructional buildings, one administrative/preschool building and a maintenance bus garage.

The reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading.

A. Primary Government

The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the School District, this includes the agencies and departments that provide the following services: general operations, food service and student related activities of the School District.

B. Component Units

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization’s governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization’s resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. The School District is also financially accountable for any organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the School District, are accessible to the School District and are significant in amount to the School District. The School District has no component units.

The School District is associated with three jointly governed organizations, a claims servicing pool, a related organization and an insurance purchasing pool. These organizations are the Lake Geauga Computer Association, the Auburn Career Center, the Ohio Schools Council Association, the Lake County Council of Governments Health Care Benefits Self-Insurance Program, the Madison Public Library and the Ohio School Boards’ Association Workers’ Compensation Group Rating Program which are presented in Notes 16, 17, 18 and 19 to the basic financial statements.

The School District’s management believes these financial statements present all activities for which the School District is financially accountable.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2 C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

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

Proprietary fund financial statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the fund's principal services. Operating disbursements include costs of sales and services and administrative costs. The fund financial statements report all other receipts and disbursements as nonoperating.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. Fund Accounting

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

Governmental Funds The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The following are the School District's major funds:

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

Classroom Facilities Maintenance Fund – The Classroom Facilities Maintenance Fund is used to account for the proceeds of a levy for the maintenance of the facilities.

Bond Retirement Fund – The Bond Retirement Fund is used to account for the accumulation of resources for the payment of general obligation bond principal and interest and certain long-term obligations from governmental resources where the District is obligated in some manner for payment.

Permanent Improvement Fund – The Permanent Improvement Fund is used to account for the proceeds of a levy for the purchase of permanent improvements.

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

Proprietary Funds The School District classifies funds financed primarily from user charges for goods or services as proprietary. The School District only has enterprise funds.

Enterprise Funds - The Enterprise Funds may be used to account for any activity for which a fee is charged to external users for goods and services. The School District's Enterprise Funds account for food service operations, uniform school supplies, latchkey, and preschool.

Fiduciary Funds The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature. The School District's agency fund accounts for various student-managed activities.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

C. **Basis of Accounting**

The School District's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

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

D. **Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer has been given the authority to allocate Board appropriations to the function and object level within all funds without resolution by the Board of Education.

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

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

E. **Cash and Investments**

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

E. **Cash and Investments** (Continued)

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments. Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2016, the School District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For the fiscal year 2016, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2016 was \$9,486.

F. **Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Amounts set aside for the payment of a general obligation term bond are classified as restricted assets since their use is limited by applicable bond indentures.

G. **Inventory and Prepaid Items**

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. **Capital Assets**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

I. Interfund Receivables/Payables

The School District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

J. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's cash basis of accounting.

K. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Pensions

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

M. Long-Term Obligations

The School District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither another financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

N. Net Position

Net Position is the residual amount when comparing assets and deferred outflows of resources to liabilities and deferred inflows of resources. The restricted component of net position is reported when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The government-wide statement of net position reports \$2,683,013 of the restricted component of net position, none of which is restricted by enabling legislation. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted components of net position are available.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

O. **Fund Balance**

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

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are not spendable in form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

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

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District’s Board of Education. Those committed amounts cannot be used for any other purpose unless the School District’s 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 the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts would represent intended uses established by the School District’s Board of Education.

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

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

P. **Interfund Transactions**

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 and after nonoperating receipts/cash disbursements in proprietary funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

NOTE 3: **CHANGE IN ACCOUNTING PRINCIPLES**

GASB Statement No. 72, *Fair Value Measurement of Application*. The objective of this Statement is to address accounting and financial reporting issues related to fair value measurement. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The District has implemented but did not impact the District's financial statements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The District has implemented but did not impact the District's financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The District has implemented but did not impact the District's financial statements.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The District has implemented but did not impact the District's financial statements.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 4: BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a part of restricted, committed, or assigned fund balance (cash basis) and three funds were budgeted as special revenue funds, but reported as a part of the General Fund on cash basis statements in accordance with GASB Statement No. 54.

The following table summarizes the adjustments necessary to reconcile the cash basis statements to the budgetary basis statements for the General Fund and Classroom Facilities Maintenance Fund.

Net Change in Fund Balance		
	General	Classroom Facilities Maintenance
Cash Basis	\$ 1,337,662	\$ 64,977
Encumbrances	(1,680,441)	(62,136)
Funds Budgeted as Special Revenue Funds but Reported as part of the General Fund for the Cash Basis Reports	336	-
Budget Basis	\$ (342,443)	\$ 2,841

NOTE 5: DEPOSITS AND INVESTMENTS

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

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

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

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

Interim monies held by the School District can 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 payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, 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 securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. At fiscal year end, \$1,609,858 of the School District's bank balance of \$1,865,001 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department but not in the School District's name. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2016, the School District had the following investments:

<u>Investment Type</u>	<u>Net Asset Value</u>	<u>Credit Rating (*)</u>	<u>Investment Maturities (in Years)</u>
			<u><1</u>
STAR Ohio	\$ 3,532,996	AAAm	\$ 3,532,996
Negotiable CDs	697,146	N/A	697,146
Total Investments	<u>4,230,142</u>		<u>\$ 4,230,142</u>
Carrying Amount of Deposits	1,825,209		
Petty Cash	<u>100</u>		
Total	<u>\$ 6,055,451</u>		

* Credit Rating was obtained from Standard & Poor's for all investments.

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

Credit Risk See the above table for credit ratings for all investments. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

Custodial Credit Risk For an investment, custodial credit risk is the risk that in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments other than STAR Ohio are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the School District's name. The School 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 School District places no limit on the amount it may invest in any one issuer. The School District's investment in Negotiable Certificates of Deposits represents 16.48 percent and STAR Ohio represents 83.52 percent of the School District's total investments.

NOTE 6: **PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School 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 and public utility tangible personal property (used in business) located in the School District. Real property tax receipts received in calendar year 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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 receipts received in calendar year 2015 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien on December 31, 2014, were levied after April 1, 2015 and are collected in 2016 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Lake and Geauga Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The amount available as an advance at June 30, 2016 was \$673,320 in the General Fund, \$84,158 in the Lake County Financing District Special Revenue Fund, \$13,070 in the Classroom Facilities Maintenance Special Revenue Fund, \$80,801 in the Debt Service Fund and \$13,548 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2015 was \$1,319,946 in the General Fund, \$158,048 in the Lake County Financing District Special Revenue Fund, \$25,875 in the Classroom Facilities Maintenance Special Revenue Fund, \$250,765 in the Debt Service Fund, and \$25,253 in the Permanent Improvement Capital Projects Fund.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 6: **PROPERTY TAXES** (Continued)

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

	2015 Second Half Collections		2016 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 349,831,200	96.97 %	\$ 357,086,840	96.98 %
Public Utility Personal	10,931,020	3.03	11,117,730	3.02
Total	<u>\$ 360,762,220</u>	<u>100.00 %</u>	<u>\$ 368,204,570</u>	<u>100.00 %</u>
 Tax Rate per \$1,000 of Assessed Valuation	 <u>\$ 57.90</u>		 <u>\$ 56.12</u>	

NOTE 7: **INTERFUND TRANSACTIONS**

During fiscal year 2016, the General Fund transferred \$38,210 to the District Managed Activities Special Revenue Fund to properly account for total activity expenditures; \$352,606 to IDEA, Part B Special Education Special Revenue Fund to properly account for total special education expenditures. The Classroom Facilities Capital Projects fund transferred \$324,695 to the Permanent Improvement Capital Projects Fund for the purchase of equipment and the Permanent Improvement Capital Projects Fund transferred \$3,064 to the Bond Retirement Debt Service Fund to pay for the debt payments associated with long-term debt obligations

Advances of \$108,131 were made to cover current operating expenses and grant expenses related to timing differences and repay prior period advances. All advances comply with the Ohio Revised Code.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 8: **RISK MANAGEMENT**

A. **Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the School District contracted with various insurance agencies for various types of insurance. Coverage is as follows:

Package Policy Schools of Ohio Risk Sharing Authority	Limits
Blanket Property Coverage	\$ 103,672,306
Equipment Breakdown - subject to policy limits (\$2,500 Deductible)	\$ 50,000,000
Miscellaneous Property - Musical Instruments, Athletic Equipment or Uniforms	\$ 1,000,000
Miscellaneous Property - Mobile Agricultural Equip.	\$ 78,888
Computer Coverage (\$2,500 Deductible)	\$ 100,000
General Liability Coverage	\$ 15,000,000
Sexual Misconduct	\$ 5,000,000
Employee Benefits Liability Claims Made	\$ 15,000,000
Employers Stop Gap Liability	\$ 15,000,000
Public Employee Dishonesty Blanket Bond (\$2,500 Deductible)	\$ 100,000
Forgery and Alteration (\$2,500 Deductible)	\$ 100,000
Money and Securities (on premises) (\$500 Deductible)	\$ 100,000
Theft, Disappearance & Destruction (off premises) (\$2,500 Deductible)	\$ 100,000
Automobile Policy	
Schools of Ohio Risk Sharing Authority	
Auto Liability	\$ 15,000,000
Medical Payments	\$ 10,000
Uninsured Motorists Liability	\$ 100,000
Umbrella Policy	
Schools of Ohio Risk Sharing Authority	
Umbrella Policy Limit	\$ 10,000,000

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 8: **RISK MANAGEMENT** (Continued)

A. **Property and Liability** (Continued)

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

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

B. **Employee Medical Coverage**

The School District has elected to provide medical coverage through premium payments to the Lake County Council of Governments Health Care Benefits Program. See Note 17 for additional information.

C. **Workers' Compensation**

For fiscal year 2016, the School District participated in the Ohio School Boards' Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 19). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. This "equity pooling" arrangement insures 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 Comp. Management provides administrative, cost control and actuarial services to the GRP.

NOTE 9: **DEFINED BENEFIT PENSION PLANS**

A. **Net Pension Liability**

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

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

A. **Net Pension Liability** (Continued)

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

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

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

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	\$6,861,222	\$32,274,137	\$39,135,359
Proportion of the Net Pension Liability	0.1202437%	0.11677841%	

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.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

A. **Net Pension Liability** (Continued)

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

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

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

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

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

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

A. **Net Pension Liability** (Continued)

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$9,514	\$6,861	\$4,627

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

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

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

A. **Net Pension Liability** (Continued)

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$44,831	\$32,274	\$21,655

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

B. School Employees Retirement System

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14.00 percent. 0.00 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School District’s contractually required contribution to SERS was \$524,106 for fiscal year 2016.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

C. State Teachers Retirement System of Ohio

Plan Description – STRS Ohio is a cost-sharing multiple employer statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported, in whole or part, by the state or any political subdivision thereof. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries.

Additional financial information supporting the preparation of the Schedule of Employer Allocations and the Schedule of Pension Amounts by Employer, including the disclosure of the net pension liability and the unmodified audit opinion on the financial statements is located in STRS Ohio's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015. The supporting actuarial information is included in the Schedules of Changes in Employers' Net Pension Liability and Employers' Net Pension Liability and Notes to Required Supplementary Information in STRS Ohio's June 30, 2015 CAFR and the Actuarial Valuation and Review as of July 1, 2015. The CAFR and actuarial valuation reports are available at www.strsoh.org or by contacting STRS Ohio at: State Teachers Retirement System of Ohio, 275 E. Broad St., Columbus, Ohio 43215-3771.

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

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11.0 of the 12.0 percent member rates goes to the DC Plan and 1.0 percent goes to the DB plan. Member contributions to the DC plan are allocated among investment choices by the member, and contributions to the DB plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 9: **DEFINED BENEFIT PENSION PLANS** (Continued)

C. **State Teachers Retirement System of Ohio** (Continued)

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 in the GASB 68 schedules of employer allocation and pension amounts by employer.

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. Through June 30, 2015, the employer rate was 14.0 percent and the member rate was 12.0 percent of covered payroll. The statutory employer rate for fiscal 2016 and subsequent years is 14.0 percent. The statutory member contribution rate increased to 13.0 percent on July 1, 2015 and will increase to 14.0 percent on July 1, 2016.

The School District's contractually required contribution to STRS was \$1,747,287 for fiscal year 2016.

D. **Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2015, one member of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 10: **POST-EMPLOYMENT BENEFITS**

A. **School Employees Retirement System**

Plan Description – In addition to a cost-sharing multiple-employer defined benefit pension plan described in Note 9, the School Employees Retirement System (SERS) administers two postemployment benefit plans.

Health Care Plan - Sections 3309.375 and 3309.69 of the Ohio Revised Code permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 10: **POST-EMPLOYMENT BENEFITS** (Continued)

A. **School Employees Retirement System** (Continued)

The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer 14% contribution to the Health Care Fund in accordance with the funding policy. For the year ended June 30, 2016, the health care allocation is 0.00%. 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. By statute no employer shall pay a health care surcharge greater than 2.0% 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 2016, the minimum compensation level was established at \$23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District's contributions assigned to health care for the years ended June 30, 2016, 2015 and 2014 were \$62,183, \$96,901, \$70,319, respectively; 93.63 percent has been contributed for fiscal year 2016 and 100 percent for fiscal years 2015 and 2014.

The SERS Retirement Board establishes 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.

The financial reports of SERS' Health Care plan are included in its Comprehensive Annual Financial Report. That report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Plan Description – STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. 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.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 10: **POST-EMPLOYMENT BENEFITS** (Continued)

B. State Teachers Retirement System

Funding Policy - Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14.00 percent employer contribution rate, 0.00 percent of covered payroll was allocated to post-employment health care for the year ended June 30, 2015 (latest information available). For the years ended June 30, 2014, and 2013, 1.00 percent of covered payroll was allocated to post-employment health care. The 14.00 percent employer contribution rate is the maximum rate established under Ohio law. For the fiscal years ended June 30, 2016, 2015, and 2014, the District's contributions to post-employment health care were \$0, \$0, \$147,095, respectively; 83.28 percent has been contributed for 2016 and 100 percent for fiscal years 2015 and 2014.

NOTE 11: **CONTINGENCIES**

A. Grants

The School District received financial assistance from Federal and State 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 is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, based on prior experience, management believes the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2016, would be immaterial.

B. Litigation

As of June 30, 2016, the School District was a party to legal proceedings. Although management cannot presently determine the outcome of these suits, they believe the resolution of these matters will not materially adversely affect the School District's financial condition.

C. State Foundation Funding

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the school district; therefore, the financial statement impact is not determinable at this time.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 12: NOTE OBLIGATIONS

A summary of note transactions for the year ended June 30, 2016 follows:

<u>Notes</u>	<u>Issued</u>	<u>Interest</u>	<u>Balance at 7/1/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/2016</u>
Bond Anticipation Notes	10/8/2014	1.250%	1,455,000	\$ -	\$ 1,455,000	\$ -
Premium on Bond Anticipation Notes	10/8/2014		4,103	-	4,103	-
Bond Anticipation Notes	10/7/2015	1.250%	-	1,455,000	-	1,455,000
Premium on Bond Anticipation Notes	10/7/2015		-	10,098	6,732	3,366
Total Notes			<u>\$ 1,459,103</u>	<u>\$ 1,465,098</u>	<u>\$ 1,465,835</u>	<u>\$ 1,458,366</u>

On October 7, 2015, the District rolled over \$1,455,000 in bond anticipation notes at an interest rate of 1.250 percent with a maturity date of October 6, 2016. The notes are backed by the full faith and credit of the Madison Local School District. The notes were issued at a premium of \$10,098.

NOTE 13: LONG-TERM DEBT OBLIGATIONS

The changes in the School District's long-term obligations during the year consist of the following:

	<u>Issued</u>	<u>Interest</u>	<u>Balance at 6/30/2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/2016</u>	<u>Due Within One Year</u>
Governmental Activities							
<u>Building Bonds</u>							
Library Facilities	2/1/1998	5.31%	\$ 290,000	\$ -	\$ 65,000	\$ 225,000	\$ 70,000
Library Refunding Bond	7/10/2013	2.47%	345,000	-	85,000	260,000	85,000
Premium on Library Refunding Bonds	7/10/2013		9,881	-	2,470	7,411	-
Accounting Gain(Loss) on Refunding	7/10/2013		(3,205)	-	(1,326)	(1,879)	-
Facilities	8/25/2010	2.00%	150,000	-	150,000	-	-
Premium on Facilities	8/25/2010		25,746	-	1,515	24,231	-
Capital Appreciation Bonds	8/25/2010	19.83%	86,853	-	-	86,853	-
Accretion on Capital Appreciation Bonds	8/25/2010		119,017	42,852	-	161,869	-
Premium on Capital Appreciation Bonds	8/25/2010		936,968	-	55,116	881,852	-
Facilities	8/25/2010	5.00%	9,460,000	-	-	9,460,000	-
Facilities	8/25/2010	5.70 to 6.05%	10,665,000	-	-	10,665,000	-
Total Building Bonds			<u>22,085,260</u>	<u>42,852</u>	<u>357,775</u>	<u>21,770,337</u>	<u>155,000</u>
<u>Tax Anticipation Note</u>							
School Improvement	11/5/2015	2.10%	-	255,000	-	255,000	83,000
Total Governmental Bonds			<u>\$ 22,085,260</u>	<u>\$ 297,852</u>	<u>\$ 357,775</u>	<u>\$ 22,025,337</u>	<u>\$ 238,000</u>

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 13: **LONG-TERM DEBT OBLIGATIONS** (Continued)

The School District issued Library and Facilities Bonds in 1998 for the purpose of construction, enlargement, and improvement of public library facilities, including equipment, furnishings, parking facilities and site improvements.

On August 25, 2010, the District issued \$25,081,852 in voted general obligation bonds which comprised of serial bonds in the amounts of \$1,645,000 and \$3,205,000, capital appreciation (deep discount) bonds in the amounts of \$86,853 and \$19,999, and term bonds in the amounts of \$9,460,000 and \$10,665,000.

\$3,205,000 of the serial bonds and \$19,999 of the capital appreciation bonds issued on August 25, 2010, were issued to provide for all future debt payments on the refunded portion of the 1993 facilities bonds. These bonds matured in April 2015.

\$1,645,000 of the serial bonds and \$86,853 of the capital appreciation bonds issued on August 25, 2010, were issued for the purpose of paying the local share of school construction under the State of Ohio Classroom Facilities Assistance Program. These bonds will mature in April 2016. The capital appreciation bonds will mature in April 2032. The maturity amount of the bonds is \$3,210,000. For fiscal year 2015, \$42,852 was accreted for a total bond value of \$248,722.

\$10,665,000 of the bonds issued on August 25, 2010, consisted of Build America Bonds (BABs) – Direct Payment. These bonds were created through the American Recovery and Reinvestment Act (ARRA) and offer federal subsidies through a refundable tax credit paid to state or local governmental issuers by the Treasury Department and the Internal Revenue Service in an amount equal to 35 percent of the total coupon interest payable to investors in these taxable bonds. The issuer of such bond shall be allowed a credit with respect to each interest payment under such bond which shall be a payable by the Secretary of the Treasury.

\$9,460,000 of the bonds issued on August 25, 2010, consisted of Qualified School Construction Bonds (QSCBs). In addition to the aforementioned BABs, the QSCBs were authorized by the federal government through ARRA. These bonds were issued as tax credit bonds under which the bond holders receive federal tax credits in lieu of interest as a means to significantly reduce the issuer's interest cost. As a condition of selling the bonds, the District is required to maintain a sinking fund with Huntington Bank. The balance of the sinking fund as of June 30, 2016 was \$550,000.

\$510,000 of the library refunding bonds issued on July 10, 2013, were issued to refund the 1999 Library Bond II. These bonds will mature in December 2018 and have an interest rate of 2.47 percent. The defeased bond was called in July 2013 and therefore is no longer outstanding at June 30, 2016.

On November 5, 2015 the School District issued a School Improvement Tax Anticipation Note in the amount of \$255,000 for the purchase of a school bus. The note will mature in December 2018 and have an interest rate of 2.10 percent.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 13: **LONG-TERM DEBT OBLIGATIONS** (Continued)

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2016 are as follows:

For the Year Ending June 30,	Principal	Interest	Total
2017	\$ 238,000	\$ 1,117,069	\$ 1,355,069
2018	245,100	1,109,307	1,354,407
2019	256,900	1,101,173	1,358,073
2020	-	1,097,000	1,097,000
2021	-	1,097,000	1,097,000
2022-2026	-	5,485,000	5,485,000
2027-2031	9,543,378	6,514,622	16,058,000
2032-2036	4,063,475	2,903,715	6,967,190
2037-2041	5,380,000	1,354,874	6,734,874
2042	1,225,000	74,112	1,299,112
Total	<u>\$ 20,951,853</u>	<u>\$ 21,853,872</u>	<u>\$ 42,805,725</u>

NOTE 14: **SET-ASIDE REQUIREMENTS**

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

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

	Capital Improvements
Set-aside Reserve Balance as of June 30, 2015	\$ -
Current Year Set-aside Requirement	520,114
Current Year Qualifying Expenditures	(829,197)
Current Year Offsets	(190,838)
Totals	<u>\$ (499,921)</u>
Balance Carried Forward to Fiscal Year 2016	\$ -
Set-aside Reserve Balance as of June 30, 2016	<u>\$ -</u>

The School District has qualifying disbursements and offsets during the fiscal year that reduced the capital improvements set-aside amounts below zero. The negative set-aside balance for the capital improvements may not be used to reduce the set-aside requirements of future years. This negative balance is therefore not presented as being carried forward to future years.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 15: FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned 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 constraints placed on fund balance for the General Fund, Classroom Facilities Maintenance Fund, Bond Retirement, Permanent Improvement Fund, and all other governmental funds are presented below:

<u>Fund Balances</u>	<u>General</u>	<u>Classroom Facilities Maintenance</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<i>Restricted for</i>						
Capital Improvements	\$ -	\$ -	\$ -	\$ 682,777	\$ 11,050	\$ 693,827
Debt Services	-	-	886,561	-	-	886,561
Preschool Programs	-	-	-	-	3,354	3,354
Information System Improvements	-	-	-	-	-	-
Student Intervention Services	-	-	-	-	465	465
Special Education	-	-	-	-	93,944	93,944
District Managed Student Activities	-	-	-	-	79,682	79,682
Disadvantaged Children	-	-	-	-	22,188	22,188
Drug Abuse Education	-	-	-	-	431	431
Teacher Development	-	-	-	-	3,377	3,377
Facility Maintenance	-	596,404	-	-	-	596,404
Scholarship Programs	-	-	-	-	258,742	258,742
Other Grants	-	-	-	-	44,038	44,038
<i>Total Restricted</i>	<u>-</u>	<u>596,404</u>	<u>886,561</u>	<u>682,777</u>	<u>517,271</u>	<u>2,683,013</u>
<i>Committed to</i>						
Underground Storage Tanks	11,000	-	-	-	-	11,000
Other Purposes	51,899	-	-	-	-	51,899
<i>Total Committed</i>	<u>62,899</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,899</u>
<i>Assigned to</i>						
Public School	17,745	-	-	-	-	17,745
Instruction	414,501	-	-	-	-	414,501
Support Services	1,088,424	-	-	-	-	1,088,424
Debt Service payments	145,500	-	-	-	-	145,500
<i>Total Assigned</i>	<u>1,666,170</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,666,170</u>
<i>Unassigned</i>						
	1,487,675	-	-	-	-	1,487,675
Total Fund Balances	<u>\$ 3,216,744</u>	<u>\$ 596,404</u>	<u>\$ 886,561</u>	<u>\$ 682,777</u>	<u>\$ 517,271</u>	<u>\$ 5,899,757</u>

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 16: JOINTLY GOVERNED ORGANIZATIONS

Lake Geauga Computer Association -The Lake Geauga Computer Association (LGCA) is a jointly governed organization that was formed for the purpose of providing computer services for accounting, grading, scheduling, EMIS and other applications to its 18 member school districts. Each of the school districts supports LGCA based upon a per pupil charge. The executive committee (governing board) consists of the superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the governing board. LGCA's continued existence is not dependent upon the School District's continued participation. Financial information can be obtained by writing the Lake Geauga Computer Association, 8140 Auburn Road, Painesville, Ohio 44077.

Auburn Career Center - The Auburn Career Center is a joint vocational school operated by eleven school districts. Each participating school district appoints one board member to the Auburn Career Center's Board of Education. The students of each participating school district may attend classes offered at the vocational facility. Each participants control over the operation of the Auburn Career Center is limited to representation on the board. The Auburn Career Center receives 1.5 mills of School District property taxes which is paid to the Auburn Career Center directly by Geauga County. Continued existence of the Auburn Career Center is not dependent on the School District's continued participation. Financial information can be obtained from the Auburn Career Center, 8140 Auburn Road, Painesville, Ohio 44077.

Ohio Schools Council Association - The Ohio Schools Council Association (Council) is a jointly governed organization among 196 school districts. The jointly governed organization was created by school districts for the purpose of saving money through volume purchases. Each school district supports the Council by paying an annual participation fee. Each school district member superintendent serves as a representative of the Assembly. The Assembly elects five of the Council's Board members and the remaining four are representatives of the Greater Cleveland School Superintendents' Association. The Council operates under a nine-member Board of Directors (the Board). The Board is the policy making authority of the Council. The Board meets monthly September through June. The Board appoints an Executive Director who is responsible for receiving and disbursing funds, investing available funds, preparing financial reports for the Board and Assembly and carrying out such other responsibilities as designated by the Board. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2015, the School District paid \$6,051 to the Council. Financial information can be obtained by contacting William J. Zelei, the Executive Director of the Ohio Schools Council at 6393 Oak Tree Blvd., Suite 377, Independence, Ohio 44131.

The School District participates in the Council's natural gas program. The Council provides participating school districts the ability to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. There are currently 151 school districts in the Program. The participants make monthly payments based on estimated usage. Each September, these estimated payments are compared to their actual usage for the year (July to June). School Districts that paid more in estimated billings than their actual billings are issued credits on future billings beginning in September until the credits are exhausted and school districts that did not pay enough on estimated billings are invoiced for the difference on the September monthly estimated billing.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 17: CLAIMS SERVICING POOL

The School District participates in the Lake County Council of Governments Health Care Benefits (HCBP) Self Insurance Program, a claims servicing pool comprised of three Lake County school districts and one Cuyahoga County School District. Each school district has a representative on the assembly (usually the superintendent or designee). Each member pays an administrative fee to the pool. The plan's business and affairs are conducted by a five member Board of Directors elected by the HCBP's assembly. The assembly elects officers for one year terms to serve on the Board of Directors. Financial information can be obtained from Michael Vaccariello at 1956 Red Bird Road, Madison, Ohio 44057.

NOTE 18: RELATED ORGANIZATION

Madison Public Library - The Madison Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Madison Local School District's Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and issues tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Madison Public Library, Nancy Currie, Clerk/Treasurer, at 6111 Middle Ridge Road, Madison, Ohio 44057.

NOTE 19: INSURANCE PURCHASING POOL

The School District participates in the Ohio Schools Council Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 20: LAKE COUNTY SCHOOL FINANCING DISTRICT

The Lake County Educational Service Center has, by a resolution adopted February 6, 1990, pursuant to Section 3311.50 of the Revised Code, created a county school financing district known as the Lake County School Financing District (the "Financing District") for the purpose of levying taxes for the provision of the following specified educational programs and services by the school districts that are part of the Financing District: the provision of necessary personnel, materials, supplies and transportation for instruction in language arts, social studies, mathematics, fine and practical arts, health and physical education, science and business education.

The Lake County Educational Service Center acts as the taxing authority of the Financing District pursuant to Section 3311.50 of the Ohio Revised Code. The Financing District receives settlements of taxes levied and distributes within ten days to each of the Member school districts; each of such Member school district's proportionate shares of that tax settlement. Each Member school district's proportionate share is a fraction, the numerator being Member school district's total pupil population and the denominator being the aggregate pupil population of all Member school districts as of that date. The School District reports this revenue in the accounts of Taxes.

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 21: **COMPLIANCE**

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

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**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education:</i>		
<i>Child Nutrition Cluster:</i>		
School Breakfast Program	10.553	\$102,679
National School Lunch Program	10.555	474,980
National School Lunch Program- Non-Cash Assistance	10.555	56,404
Total - National School Lunch Program		<u>531,384</u>
Total U.S. Department of Agriculture/Child Nutrition Cluster		634,063
U.S. DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education:</i>		
<i>Special Education Cluster:</i>		
Special Education: Grants to States	84.027	61,728
Total - Special Education: Grants to States		<u>804,595</u>
		866,323
Special Education: Preschool Grants	84.173	1,926
Total - Special Education: Preschool Grants		<u>21,800</u>
		23,726
Total - Special Education Cluster		890,049
Title I Grants to Local Educational Agencies	84.010	961
		34,638
		104,005
Total - Title I Grants to Local Educational Agencies		<u>417,126</u>
		556,730
Improving Teacher Quality State Grants	84.367	95,543
Total - Improving Teacher Quality State Grants		<u>27,648</u>
		123,191
Total U.S. Department of Education		<u>1,569,970</u>
Total		<u><u>\$2,204,033</u></u>

The accompanying notes are an integral part of this schedule.

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A – BASIS OF PRESENTATION

The accompanying Federal Awards Expenditures Schedule (the Schedule) includes the federal award activity of the Madison Local School District, Lake County, Ohio, (the District's) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the cash financial position, changes in cash financial position of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE D – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

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

Madison Local School District
Lake County
1956 Redbird Road
Madison, Ohio 44057

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 cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Madison Local School District, Lake County, Ohio, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 10, 2016, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

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 opinions 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.

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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the District's response and, accordingly, we express no opinion on it.

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.



Dave Yost
Auditor of State
Columbus, Ohio

November 10, 2016



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Madison Local School District
Lake County
1956 Red Bird Road
Madison, Ohio 44057

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the Madison Local School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the Madison Local School District's major federal programs for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

Management's Responsibility

The District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on each of the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Madison Local School District, Lake County, Ohio, complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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

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

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

November 10, 2016

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material weaknesses in internal control reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	No
(d)(1)(vii)	Major Programs (list):	<ul style="list-style-type: none"> ➤ Title I Grants to Local Educational Agencies, CFDA 84.010; ➤ Nutrition Cluster, CFDA 10.553 and 10.555
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR §200.520?	No

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

FINDING NUMBER 2016-001

Noncompliance Finding

Ohio Rev. Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38.

Ohio Admin. Code § 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the School District prepared its financial statements and notes following the cash basis of accounting. This is a comprehensive basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report within the required time limits.

We recommend the School District take the necessary steps to ensure the annual report is prepared in accordance with generally accepted accounting principles.

Officials' Response: See Corrective Action Plan

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
JUNE 30, 2016**

Finding Number	Finding Summary	Status	Additional Information
2015-001	Noncompliance Finding - Ohio Rev. Code § 117.38 – The financial statements were not prepared in accordance with accounting principles generally accepted in the United States of America.	Not corrected	Repeated as 2016-001

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**MADISON LOCAL SCHOOL DISTRICT
LAKE COUNTY**

**CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
JUNE 30, 2016**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	GAAP Statements have not been filed since the cost of preparing GAAP Statements outweighs the benefit. It is not anticipated that GAAP Statements will be filed in the future.	N/A	Michael Vaccariello, Treasurer

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MADISON LOCAL SCHOOL DISTRICT

LAKE 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
DECEMBER 6, 2016**