PORT CLINTON CITY SCHOOL DISTRICT
OTTAWA COUNTY

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Dave Yost • Auditor of State

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PORT CLINTON CITY SCHOOL DISTRICT
OTTAWA COUNTY
JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

Port Clinton City School District
Ottawa County
811 South Jefferson Street
Port Clinton, Ohio 43452-2415

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of Port Clinton City School District, Ottawa County, Ohio (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the accounting principles generally accepted in the United States of America. This responsibility includes the 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis for Adverse Opinion

As described in Note 2 of the financial statements, the District prepared these financial statements using the accounting basis Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(D) permit. However, Ohio Admin. Code Section 117-2-03(B) requires these statements to follow accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material.

Adverse Opinion

In our opinion, because of the matter described in the *Basis for Adverse Opinion* paragraph, the financial statements do not present fairly the financial position, results of operations, and cash flows, where applicable, of Port Clinton City School District as of and for the year ended June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

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

The Schedule of Expenditures of Federal Awards 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 also not a required part of the financial statements.

Because of the significance of the matter described in the *Basis for Adverse Opinion* paragraph, it is inappropriate to express and we do not express an opinion on the supplementary information referred to above.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2017, 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.

Dave Yost

Dave Yost
Auditor of State

Columbus, Ohio

March 16, 2017

PORT CLINTON CITY SCHOOL DISTRICT
OTTAWA COUNTY

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS) - ALL GOVERNMENTAL FUND TYPES FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Governmental Fund Types				Totals
	General	Special Revenue	Debt Service	Capital Projects	(Memorandum Only)
Cash Receipts					
From Local Sources:					
Property Taxes	$ 13,615,872		$ 2,018,703	$ 545,676	$ 16,180,251
Tuition	616,748				616,748
Food Service - Charges for Services		$ 209,722			209,722
Earnings on Investments	141,003	13			141,016
Extracurricular	64,104	192,768			256,872
Contributions & Donations	14,517	146,056			160,573
Classroom Materials and Fees	55,082				55,082
Rental Income	2,342				2,342
Other Local Revenues	54,115	5,868		33,579	93,562
Intergovernmental - Intermediate		11,191			11,191
Intergovernmental - State	5,623,931	138,532	252,786	72,752	6,088,001
Intergovernmental - Federal	188,450	1,595,737			1,784,187
Total Cash Receipts	20,376,164	2,299,887	2,271,489	652,007	25,599,547
Cash Disbursements					
Current:					
Instruction:					
Regular	8,277,707	166,254		148,523	8,592,484
Special	2,071,386	472,588			2,543,974
Vocational	134,201				134,201
Other	919,582				919,582
Support Services:					
Pupil	1,877,331	200,789			2,078,120
Instructional Staff	442,730	95,497			538,227
Board of Education	20,396				20,396
Administration	1,629,588	121,623			1,751,211
Fiscal	663,592	5,224	39,646	11,841	720,303
Operations and Maintenance	2,051,198			819,250	2,870,448
Pupil Transportation	885,445				885,445
Central	102,341	3,448			105,789
Operation of Non-Instructional	180	77,878			78,058
Food Service Operations	1,475	613,425			614,900
Extracurricular Activities	480,069	280,392			760,461
Facilities Acquisition and Construction				351,813	351,813
Debt Service:					
Principal Retirement			1,110,000		1,110,000
Interest and Fiscal Charges			1,189,421		1,189,421
Total Cash Disbursements	19,557,221	2,037,118	2,339,067	1,331,427	25,264,833
Excess of Receipts Over (Under) Disbursements	818,943	262,769	(67,578)	(679,420)	334,714
Other Financing Receipts (Disbursements)					
Transfers In			107,948	500,000	607,948
Transfers Out	(607,948)				(607,948)
Refund of Prior Year Expenditure	350				350
Total Other Financing Receipts (Disbursements)	(607,598)	-	107,948	500,000	350
Net Change in Fund Cash Balances	211,345	262,769	40,370	(179,420)	335,064
Fund Cash Balances, July 1	10,233,281	74,732	1,919,641	7,997,222	20,224,876
Fund Cash Balances, December 31					
Restricted		337,501	1,960,011	2,317,802	4,615,314
Committed	264,681			5,500,000	5,764,681
Assigned	457,178				457,178
Unassigned	9,722,767				9,722,767
Fund Cash Balances, June 3C	$ 10,444,626	$ 337,501	$ 1,960,011	$ 7,817,802	$ 20,559,940

The notes to the financial statements are an integral part of this statement.

PORT CLINTON CITY SCHOOL DISTRICT
OTTAWA COUNTY

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS) - ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Proprietary Fund Type	Fiduciary Fund Type		Totals
	Internal Service	Agency	Private Purpose Trust	(Memorandum Only)
Operating Cash Receipts				
Food Service		$ 98,814		$ 98,814
Contributions and Donations		30,116	$ 100	30,216
Other Local Revenues		1,499		1,499
Self Insurance Employee Benefits	$ 1,624,338			1,624,338
Total Operating Cash Receipts	1,624,338	130,429	100	1,754,867
Operating Cash Disbursements				
Purchased Services	1,457,999	3,156		1,461,155
Other		127,641	500	128,141
Total Operating Cash Disbursements	1,457,999	130,797	500	1,589,296
Net Change in Fund Cash Balances	166,339	(368)	(400)	165,571
Fund Cash Balances, July 1	444,542	82,850	8,703	536,095
Fund Cash Balances, June 30	$ 610,881	$ 82,482	$ 8,303	$ 701,666

The notes to the financial statements are an integral part of this statement.

NOTE 1 – DESCRIPTION OF THE SCHOOL DISTRICT

Port Clinton City School District, Ottawa County, Ohio (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

The District is staffed by 106 non-certified employees, 120 certified full-time teaching personnel, and 14 administrators who provide services to approximately 1,850 students and other community members. The District currently operates three instructional buildings, one administrative building, one athletic complex and one bus garage.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although required by Ohio Admin. Code § 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America, the District chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved).

A. The Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "*The Financial Reporting Entity*" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units", and GASB Statement No. 61, "The Financial Reporting Entity Omnibus and Amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District. Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The financial statements of the reporting entity include only those of the District (the primary government).

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

Jointly Governed Organizations

Northern Ohio Educational Computer Association

Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization among several school districts. NOECA was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports NOECA based upon a per pupil charge dependent upon the software package utilized. The NOECA assembly consists of a superintendent from each participating school district and a representative from the fiscal agent. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each of the operating committees, and two Assembly members from each county in which participating school districts are limited to its representation on the Board. During the fiscal year, the District paid NOECA $36,336 for its services. Financial information can be obtained by contacting Matt Bauer, who serves as Controller, at 1210 East Bogart Road, Sandusky, Ohio 44870.

Vanguard-Sentinel Career and Technology Centers

Vanguard-Sentinel Career and Technology Centers is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of two representatives from Fremont City Schools and one representative from the Port Clinton City School District and each of the other twelve participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to Vanguard-Sentinel Career and Technology Centers, Alan Binger Treasurer, at 1306 Cedar Street, Fremont, Ohio 43420.

Bay Area Council of Governments

The Bay Area Council of Governments (BACG) consists of various school districts representing seven counties (Crawford, Erie, Huron, Ottawa, Sandusky, Seneca, and Wood). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The item currently being purchased through BACG is natural gas. The only cost to the District is an administrative charge if they purchase something through the Council.c The BACG consists of the superintendent of each school. The Board of Directors of the BACG consists of one elected representative from each county, the superintendent of the fiscal agent, and two non-voting members (administrator and fiscal agent). Members of the Board serve two-year terms which are staggered. During the fiscal year, the District paid BACG $43,118 for its services. Financial information can be obtained by contacting North Point Educational Service Center, who serves as fiscal agent, at 1210 East Bogart Road, Sandusky, Ohio 44870.

Public Entity Risk Pools

Comp Management Compensation Group Retrospective Rating Plan

The District participates in a group retrospective rating plan for workers' compensation. The Comp Management Compensation Group Retrospective Rating Plan is a program where the District will continue to pay their individual bureau of workers' compensation premiums for the program year as required. The Bureau of Workers Compensation will evaluate the group's claim losses (compensation and medical costs, as well as claim reserves), at 12, 24 and 36 months following the end of the group retro policy year. If the Bureau of Workers Compensation findings result in a group retrospective premium calculation lower than the group's standard premium, participating employers may be entitled to a refund. Each year, the participating school districts pay an enrollment fee to Comp Management to cover the costs of administering the program.

Ohio School Benefits Cooperative

The District participates in a claims purchasing pool comprised of over thirty-five Districts. The Cooperative is governed by a nine-member Board of Directors, all of whom are administrators of participating Districts. All Cooperative revenues are generated from charges for services. Financial information can be obtained by writing to Christine Wagner, Treasurer, Muskingum Valley Educational Service Center, at 205 North 7th Street, Zanesville, Ohio 43701-3709

Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority Board (SORSA), an insurance purchasing pool. SORSA's business affairs are conducted by a nine member Board of directors consisting of a President, Vice President, Secretary, Treasurer and five delegates. SORSA was created to provide joint self-insurance coverage and to assist members to prevent and reduce losses and injuries to the District's property and persons. It is intended to provide liability and property insurance at reduced premiums for the participants. SORSA is organized as a nonprofit corporation under provisions of Ohio Revised Code 2744.

Related Organization

Ida Rupp Public Library

The Library is a distinct political subdivision of the State of Ohio governed by a Board of Trustees. The Trustees are appointed by the Port Clinton Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. Financial information can be obtained from Ida Rupp Public Library, 310 Madison Street, Port Clinton, Ohio 43452.

Other Organization

Immaculate Conception Catholic School

Within the District boundaries, the Immaculate Conception Catholic School is operated through the Toledo Catholic Diocese. Current State legislation provides funding to this parochial school. These monies are received and disbursed on behalf of the parochial school by the Treasurer of the District, as directed by the parochial school. The money is recorded in the auxiliary fund as a special revenue fund.

B. Fund Accounting

The District uses fund accounting to segregate cash and investments which are restricted to use. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities.

For financial statement presentation purposes, the various funds of the District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

GOVERNMENTAL FUND TYPES

Governmental funds are those through which most governmental functions of the District are financed. The following are the District's governmental fund types:

General Fund – The General Fund is the operating fund of the District and 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 District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects and debt service) that are legally restricted to expenditure for specified purposes. The District had the following significant Special Revenue Funds:

Food Service Fund – This fund is used to account for federal and state monies which assist in cafeteria operations.

Title I Fund – This fund is used to account for federal monies to assist schools with high numbers or high percentages of children from low-income families in ensuring that all children meet challenging state academic standards.

IDEA, Part B Fund – This fund is used to account for federal monies which assist states in the identification of handicapped children, and provision of full educational opportunities to handicapped children in all grade levels.

Debt Service Fund – The District has one Debt Service Fund. The Debt Service fund is used for the accumulation of resources for, and the payment of general obligation bond and energy conservation note long-term debt principal and interest.

Capital Projects Funds – The capital projects funds are used to account for financial resources that are restricted or committed for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The District had the following significant Capital Projects Funds:

Permanent Improvement Fund – The fund is to account for all transactions related to the acquiring, constructing, or improving of such permanent improvements as are authorized by Chapter 5705, Ohio Rev. Code.

Building Fund - This fund is used to account for the receipts and expenditures related to all special bond funds in the district. All proceeds from the sale of bonds, notes, or certificates of indebtedness, except premium and accrued interest, must be paid into this fund. Expenditures recorded here represent the costs of acquiring capital facilities including real property.

PROPRIETARY FUND TYPE

Proprietary funds are used to account for the District's ongoing activities which are similar to those found in the private sector. Proprietary funds are classified as either enterprise or internal service.

Internal Service Fund - Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the District on a cost-reimbursement basis. The District's internal service fund accounts for the activities of the self-insurance program for employee health benefits.

FIDUCIARY FUND TYPE

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The fiduciary fund category is split into four classifications: pension trusts, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private purpose trust which accounts for a scholarship program for students. Agency funds are custodial in nature. The District's agency funds account for athletic tournament activity and student activities.

C. Basis of Accounting

Although required by Ohio Admin. Code § 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America, the District chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

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) are not recorded in this financial statement.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the certificate of estimated resources and the appropriations resolution, both of which are prepared on the budgetary basis of accounting. The certificate of estimated resources establishes a limit on the amount the Board 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 at the fund level for all funds. Budgetary allocations within the fund level are made by the Treasurer.

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 appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources.

E. Cash and Investments

To improve cash management, cash received by the District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through District records.

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 District invested in savings accounts, insured cash sweep accounts, Certificates of Deposit Account Registry Service (CDARS) Federal Home Loan Bank (FHLB) securities, Federal Farm Credit Bank (FFCB) securities, Federal National Mortgage Association (FNMA) securities, brokered CD's, Private Equity Funding Corp (PEFCO), Ohio Taxable Muni, Freddie Mac (FMCC) and STAR Ohio. Investments are reported at cost, except for STAR Ohio.

Investments in STAR Ohio are measured at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

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 totaled $141,003, which included $70,602 assigned from other funds.

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. The District reported no restricted assets.

G. Fund Balance

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

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

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

<u>Committed</u> - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot

be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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

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

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

H. Inventory and Prepaid Items

The District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets.

I. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets.

J. Interfund Receivables/Payables

The District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities. The District did not make any advances during fiscal year 2016.

K. 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 District's cash basis of accounting.

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 positon 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 District's cash basis does 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.

N. Interfund Transactions

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.

O. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund–type eliminations have not been made in the aggregation of this data.

NOTE 3 – COMPLIANCE

Ohio Admin. 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 the regulatory basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

NOTE 4 – DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% 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. 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;

6. The State Treasury Asset Reserve of Ohio (STAR Ohio) investment pool;

7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,

8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At June 30, 2016, $262,537 of the District's bank balance of $14,625,812 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

The 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 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.

B. Investments

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

		Investment Maturity	
Investment Type	Carrying Value	6 months or less	Greater than 24 months
STAR Ohio	$ 547	$ 547	
FHLMC	500,063		$ 500,063
FFCB	605,646		605,646
FNMA	574,387		574,387
FHLB	999,889		999,889
PEFCO	2,906,220		2,906,220
OH Munis	310,489		310,489
FMCC	1,000,000		1,000,000
Total	$ 6,897,241	$ 547	$ 6,896,694

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The District's investments were rated AA+ and AAA by Standard & Poor's and Moody's Investor Services, respectively. The District's investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Rev. Code. Standard & Poor's has assigned STAR Ohio an AAAm money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2016.

Investment Type	Value	% of total
STAR Ohio	$ 547	0.01%
FHLMC	500,063	7.25%
FFCB	605,646	8.78%
FNMA	574,387	8.33%
FHLB	999,889	14.50%
PEFCO	2,906,220	42.14%
OH Munis	310,489	4.50%
FMCC	1,000,000	14.50%
Total	$ 6,897,241	100.00%

NOTE 5 – BUDGETARY ACTIVITY

Budgetary activity for the year ended June 30, 2016 follows:

Budgeted vs. Actual Receipts			
	Budgeted	Actual	
Fund Type	Receipts	Receipts	Variance
General	$ 20,058,080	$ 20,376,514	$ 318,434
Special Revenue	2,309,837	2,299,887	(9,950)
Debt Service	2,396,706	2,379,437	(17,269)
Capital Projects	1,708,993	1,152,007	(556,986)
Trust		100	100
Internal Service	1,584,984	1,624,338	39,354
Total	$ 28,058,600	$ 27,832,283	$ (226,317)

Budgeted vs. Actual Basis Expenditures			
	Appropriation	Budgetary	
Fund Type	Authority	Expenditures	Variance
General	$ 20,994,780	$ 20,442,240	$ 552,540
Special Revenue	2,151,872	2,077,652	74,220
Debt Service	2,376,898	2,344,167	32,731
Capital Projects	2,437,921	1,776,596	661,325
Trust	500	500	
Internal Service	1,485,576	1,459,706	25,870
Total	$ 29,447,547	$ 28,100,861	$ 1,346,686

NOTE 6 – PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the District. Real property tax receipts received in calendar year 2016 represent the collection of calendar years 2015 taxes. Real property taxes received in calendar years 2016 were levied after April 1, 2015, on the assessed values as of January 1, 2015, respectively, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in calendar years 2016 represent the collection of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2015 became a lien on December 31, 2013, were levied after April 1, 2015, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Ottawa County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the counties 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 assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second Half Collections		2016 Second Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	$ 575,928,290	96.46%	$ 593,040,950	96.48%
Public utility personal	$ 21,164,680	3.54%	$ 21,665,340	3.52%
Total	$ 597,092,970	100.00%	$ 614,706,290	100.00%
Tax rate per $1,000 of assessed valuation	$63.87		$63.74	

NOTE 7 - RISK MANAGEMENT

A. Property and Liability

The District is a member of the Schools of Ohio Risk Sharing Authority (SORSA). SORSA is a member owned organization having approximately 110 members. SORSA is a joint self-insurance pool. SORSA assumes the risk of loss up to the limits of the District's policy. SORSA covers the following risks, as applicable:

- Property
- Electronic Data Processing
- Boiler and Machinery
- Crime
- General Liability
- Automobile Liability and Physical Damage
- School Board Errors and Omissions.

The District contributes to the funding, operating and maintaining of the SORSA joint self-insurance pool. The District's contributions cover deductible losses, loss fund contribution, insurance costs, and administration cost.

The District paid $72,849 in premiums to the pool for fiscal year 2016 coverage. Settled claims have not exceeded commercial coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

SORSA financial statements are available by contacting SORSA at
Schools of Ohio Risk Sharing Authority, Inc.
8050 North High Street, Suite 160
Columbus, Ohio 43235

B. Employee Group Health Insurance

The District participates in the Ohio School Benefits Cooperative, a claims servicing and group purchasing pool composed of thirty-five members. The Ohio School Benefits Cooperative (OSBC) is created and organized pursuant to and as authorized by Section 9.833 of the Ohio Revised Code. OSBC is governed by a nine member Board of Directors, all of whom must be local school district and/or educational service center administrators. The Muskingum Valley Educational Service Center serves as the fiscal agent for OSBC. The OSBC is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to maximize benefits and/or reduce costs of medical, prescription drug, vision, dental, life, and/or other group insurance coverages for their employees and the eligible dependents, and designated beneficiaries of such employees. Participants pay a $500 membership fee to OSBC. The OSBC offers two options to participants.

Participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OSBC's third party administrator. The OSBC's business and affairs are conducted by a nine member Board of Directors consisting of Educational Service Center superintendents elected by the members of the OSBC. Medical Mutual/Antares is the Administrator of the OSBC. On August 5, 2013, the District elected to participate in the self-insured purchasing program for medical, prescription drug and dental (joint insurance purchasing program for medical, prescription drug, and dental coverage).

Financial information can be obtained by writing to the, Christine Wagner, Treasurer of the Muskingum Valley Educational Service Center, at 205 N. 7th Street, Zanesville, Ohio 43701-3709

C. Worker's Compensation Plan

The District participates in a Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. Each year, the participating school districts pay an enrollment fee to the GRP to cover the cost of administering the program. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP.

The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley provides administrative, cost control and actuarial services to the GRP.

D. Self-Insurance

As previously indicated, the District is self-insured for medical, prescription drug, and dental. The Self Insurance Fund pays covered claims to service providers, and recovers these costs from charges to other funds based on an actuarially determined cost per employee. A comparison of Self-Insurance Fund balance to the actuarially-measured liability as of June 30 follows:

	2016	2015
Fund Balance	$ 610,881	$ 444,542
Actuarial Liabilities	$ 102,848	97,026

NOTE 8 – DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

GASB Statement No. 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 the employers. All contributions to date have come solely from the employer (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within thirty years. If the amortization period exceeds thirty years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description - School Employees Retirement System (SERS)

Plan Description - District classified 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. The 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; or Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

Annual retirement benefits are calculated based on the final average salary multiplied by a percentage that varies based on years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over thirty years. 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 3 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 percent. No allocation was made to the Health Care Fund.

The District's contractually required contribution to SERS was $746,764 for fiscal year 2016.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP) and a Combined Plan (CP). Benefits are established by Ohio Revised Code Chapter 3307. The DBP plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by 2 percent of the original base benefit. For members retiring August 1, 2013, or later, the first 2 percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age sixty with five years of qualifying service credit, at age fifty-five with twenty-five years of service credit, or thirty years of service credit regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age sixty with thirty-five years of service or age sixty-five with five years of service on August 1, 2026.

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

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

New members who choose the DCP or CP 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 CP account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB Statement No. 68 reporting purposes.

A DBP or CP 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 DCP who become disabled are entitled only to their account balance. If a member of the DCP dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

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

The District's contractually required contribution to STRS was $2,342,131 for fiscal year 2016.

Net Pension Liability

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 District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.093743%	0.08250873%	
Proportion of the Net Pension Liability Current Measurement Date	0.093718%	0.08359796%	
Change in Proportionate Share	(0.000025%)	0.00108923%	
Proportionate Share of the Net Pension Liability	$5,347,640	$23,104,031	$28,451,671

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67 as part of the 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 modification as actual results are compared with past expectations and new estimates are made about the future.

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

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

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

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investment expenses, including inflation
Actuarial Cost Method	entry age normal

For postretirement 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 on June 30, 2010.

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

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

Discount Rate - The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings 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:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's Proportionate Share of the Net Pension Liability	$7,415,255	$5,347,640	$3,606,538

Changes Between Measurement Date and Report Date

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the District's net pension liability is expected to be significant.

Actuarial Assumptions - STRS

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

Inflation	2.75 percent
Projected Salary Increases	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses
Cost of Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA 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 eighty-nine and no set back for age ninety and above. Females younger than age eighty are set back four years, one year set back from age eighty through eighty-nine, and no set back from age ninety 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.

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

Asset Class	Target Allocation	10 Year Expected Nominal 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
	100.00%	

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's Proportionate Share of the Net Pension Liability	$32,093,242	$23,104,031	$15,502,313

Social Security System

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

NOTE 9 – POST-EMPLOYMENT BENEFITS

School Employees Retirement System (SERS)

Health Care Plan Description - The District contributes to the SERS Health Care Fund administered by SERS for classified retirees and their beneficiaries. For GASB Statement No. 45 purposes, this plan is considered a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, prorated according to service credit earned. For fiscal year 2016, this amount was $23,000. State statute provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2016, the District's surcharge obligation was $46,584.

The District's contribution for health care for the fiscal years ended June 30, 2016, 2015, and 2014 was $46,584, $81,712, and $50,115, respectively. The full amount has been contributed for all three fiscal years.

State Teachers Retirement System (STRS)

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

Funding Policy - Ohio Rev. Code Chapter 3307 authorizes STRS to offer the health care plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the health care plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal years ended June 30, 2016, and June 30, 2015, STRS did not allocate any employer contributions to postemployment health care. For the fiscal year ended June 30, 2014, 1 percent of covered payroll was allocated to postemployment health care. The District's contribution for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were $0, $0, and $89,191 respectively. The full amount has been contributed for all three fiscal years.

NOTE 10 – DEBT

Debt outstanding at June 30, 2016 was as follows:

Governmental activities:	Balance Outstanding 06/30/15	Increases	Reductions	Balance Outstanding 06/30/16	Amounts Due in One Year
General Obligation Bonds					
Current interest bonds (Series 2010)	$ 13,495,000		$ (975,000)	$ 12,520,000	$ 1,065,000
Current interest bonds (Series 2014)	24,720,000		$ (35,000)	24,685,000	35,000
Capital appreciation bonds (Series 2010)	79,900			79,900	
Accreted Interest	97,440	28,963		126,403	
Total general obligation bonds	38,392,340	28,963	(1,010,000)	37,411,303	1,100,000
Other long-term obligations					
Energy conservation notes	199,400		(100,000)	99,400	99,400
Total Long-Term Obligations	$ 38,591,740	$ 28,963	$ (1,110,000)	$ 37,510,703	$ 1,199,400

School Improvement General Obligation Bonds (Series 2010): On February 24, 2010, the District issued general obligation school improvement bonds (Series 2010) to provide long-term financing of constructing, renovating, remodeling, adding to, furnishing, equipping and otherwise improving District buildings and facilities and acquiring, clearing and improving their sites, including, but not limited, to constructing, furnishing and equipping a new middle school and adding to, renovating and otherwise improving Bataan Memorial Elementary School. The issuance and the sale of the District's $41,999,900 general obligation school improvement bonds consisted of $2,074,900 school improvement series 2010A tax-exempt bonds, $24,760,000 school improvement Build America Bonds and $15,165,000 taxable school improvement tax credit bonds (qualified school construction bonds). On June 4, 2014, the District refinanced the $24,760,000 school improvement Build America Bonds.

2002 Energy Conservation Notes: The District issued $1,376,400 in House Bill 264 Notes. The Notes mature in May, 2017. The purpose of the House Bill 264 Notes was to renovate the high school in order to produce savings in energy costs.

School Improvement General Obligation Bonds (Series 2014): On June 4, 2014, the District issued general obligation school improvement bonds (Series 2014) to refinance the Build America Bonds (Series 2010). This issuance was to finance site preparation and the construction, renovation, remodeling, furnishing, equipment of buildings and facilities, including but not limited to the construction, furnishing and equipping of a new middle school and the expansion and renovation of Bataan Memorial Elementary School.

As of June 30, 2016, principal and interest requirements to retire general obligation bonds and energy conservation notes are:

	General Obligation Bonds			Capital Appreciation Bonds		
Year Ended	Principal	Interest	Total	Principal	Interest	Total
2017	$ 1,100,000	$ 1,164,283	$ 2,264,283			
2018	1,120,000	1,145,780	2,265,780			
2019	1,135,000	1,126,580	2,261,580			
2020	1,240,000	1,106,224	2,346,224			
2021	1,260,000	1,084,874	2,344,874			
2022-2026	7,060,000	5,075,705	12,135,705			
2027-2031	5,995,000	4,857,682	10,852,682	$79,900	$1,095,100	$1,175,000
2032-2036	7,560,000	2,858,150	10,418,150			
2037-2041	8,775,000	1,295,900	10,070,900			
2042	1,960,000	39,200	1,999,200			
Total	$37,205,000	$19,754,378	$56,959,378	$79,900	$1,095,100	$1,175,000

Fiscal	Energy Conservation Notes		
Year	Principal	Interest	Total
2017	$ 99,400	$ 3,463	$ 102,863

Legal Debt Margin

The Ohio Rev. Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2016, are a voted debt margin of $19,993,577 (including available funds of $1,954,911), an unvoted debt margin of $614,706, and a legal energy conservation debt margin of $5,432,957.

NOTE 11 – SET ASIDES

The 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 fiscal year must be held in cash at fiscal year-end. These amounts must be carried forward and used for the same purposes in future years. Expenditures exceeding the set aside requirement may not be carried forward to the next fiscal year.

The following cash basis information identifies the changes in the fund balance reserves for capital improvements during 2016.

	Capital Improvements
Set Aside Reserve Balance June 30, 2015	
Current Year Set Aside Requirement	$ 312,090
Current Year Qualified Expenditures	(95,622)
Current Year Offsets	(618,395)
Total	$ (401,927)
Balance carried forward to fiscal year 2017	
Set-aside balance June 30, 2016	

Although the District has offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition reserve, this extra money may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

NOTE 12 – CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are 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. The effect of any such disallowed claims on the overall financial position of the District at June 30, 2016, if applicable, cannot be determined at this time.

B. Litigation

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

C. Foundation Funding

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

PORT CLINTON CITY SCHOOL DISTRICT
OTTAWA COUNTY

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

FEDERAL GRANTOR ***Pass Through Grantor*** **Program / Cluster Title**	**Federal CFDA Number**	**Total Federal Expenditures**
U.S. DEPARTMENT OF AGRICULTURE		
Passed Through Ohio Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	$ 93,918
National School Lunch Program		
Non-Cash Assistance (Food Distribution)	10.555	52,959
Cash Assistance	10.555	372,135
Total National School Lunch Program		425,094
Total U.S. Department of Agriculture		**519,012**
U.S. DEPARTMENT OF EDUCATION		
Passed Through Ohio Department of Education:		
Special Education Cluster (IDEA):		
Special Education - Grants to States	84.027	412,496
Special Education - Preschool Grants	84.173	12,140
Total Special Education Cluster (IDEA)		424,636
Title I Grants to Local Educational Agencies	84.010	422,161
Rural Education	84.358	7,996
Improving Teacher Quality State Grants	84.367	89,356
Total U.S. Department of Education		**944,149**
Total Expenditures of Federal Awards		**$ 1,463,161**

The accompanying notes are an integral part of this schedule.

PORT CLINTON CITY SCHOOL DISTRICT
OTTAWA COUNTY

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

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Port Clinton City School District (the District) 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 financial position, changes in net position, or cash flows 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 entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

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

Port Clinton City School District
Ottawa County
811 South Jefferson Street
Port Clinton, Ohio 43452-2415

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Port Clinton City School District, Ottawa County, Ohio, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 16, 2017, wherein we issued an adverse opinion on the District's financial statements because the District prepared its financial statements using accounting practices the Auditor of State prescribes or permits for governmental entities not required to report in accordance with GAAP rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider material weaknesses. We consider findings 2016-001 and 2016-002 to be material weaknesses.

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 matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2016-001.

Entity's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

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

Dave Yost
Auditor of State

Columbus, Ohio

March 16, 2017

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

Port Clinton City School District
Ottawa County
811 South Jefferson Street
Port Clinton, Ohio 43452-2415

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited Port Clinton City School District, Ottawa County, Ohio's (the District's) 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 Port Clinton City 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 and questioned costs 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.

Basis for Qualified Opinion on Title I Grants to Local Educational Agencies

As described in finding 2016-003 in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding period of performance applicable to its CFDA 84.010 Title I Grants to Local Educational Agencies major federal program. Compliance with this requirement is necessary, in our opinion, for the District to comply with requirements applicable to this program.

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Qualified Opinion on Title I Grants to Local Educational Agencies

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Title I Grants to Local Educational Agencies* paragraph, Port Clinton City School District complied, in all material respects, with the requirements referred to above that could directly and materially affect its *Title I Grants to Local Educational Agencies* for the year ended June 30, 2016.

The District's response to our noncompliance finding is described in the accompanying schedule of findings and questioned costs and /or corrective action plan. We did not audit the District's response and, accordingly, we express no opinion on it.

Unmodified Opinion on the Other Major Federal Program

In our opinion, Port Clinton City School District complied in all material respects with the requirements referred to above that could directly and materially affect its other major federal program identified in the *Summary of Auditor's Results* section of the accompanying schedule of findings and questioned costs 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's compliance requirement will not be prevented, or timely detected or corrected. A *significant deficiency in internal over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a 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 was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness, described in the accompanying schedule of findings and questioned costs as item 2016-003.

The District's response to our internal control over compliance finding is described in the accompanying schedule of findings and / or corrective action plan. We did not audit the District's response and, accordingly, we express no opinion on it.

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

Dave Yost
Auditor of State

Columbus, Ohio

March 16, 2017

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PORT CLINTON CITY SCHOOL DISTRICT
OTTAWA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
2 CFR § 200.515
JUNE 30, 2016

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Adverse
(d)(1)(ii)	**Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?**	Yes
(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?**	Yes
(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: Special Education Cluster Qualified: Title I Grants to Local Educational Agencies
(d)(1)(vi)	**Are there any reportable findings under 2 CFR § 200.516(a)?**	Yes
(d)(1)(vii)	**Major Programs (list):**	Special Education Cluster Title I Grants to Local Education Agencies – CFDA #84.010
(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 Citation / Material Weakness

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 Admin. Code § 117-2-03(B), which further clarifies the requirements of **Ohio Rev. Code § 117.38**, requires the District to file annual financial reports which are prepared using generally accepted accounting principles (GAAP).

For fiscal year 2016, the District prepared financial statements in accordance with the regulatory basis of accounting prescribed or permitted by the Auditor of State for governments not required to report in accordance with GAAP as a cost savings measure. This presentation differs from accounting principles generally accepted in the United States of America. The accompanying financial statements and notes omit assets, liabilities, fund equities, 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.

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

Officials' Response:

Management believes reporting on a basis of accounting other than generally accepted accounting principles (GAAP) is more cost efficient and does not present a risk for the District's assets and debt.

FINDING NUMBER 2016-002

Material Weakness – Financial Reporting

We identified the following errors in the financial statements and/or notes to the financial statements for the year ended June 30, 2016:

- Special Revenue Fund Type budgeted expenditures (appropriation authority) were increased in the amount of $86,280 in order to bring amounts reported in the notes to the financial statements in line with authorized budget amounts;

- Special Revenue Fund Type budgetary expenditures were increased in the amount of $71,139 in order to bring amounts reported in the notes to the financial statements in line with actual budgetary basis expenditures;

- Special Revenue Fund Type budgeted receipts were increased in the amount $352,924 in order to bring amounts reported in the notes to the financial statements in line with authorized budget amounts; and

FINDING NUMBER 2016-002
(Continued)

- Debt Service Fund Type actual receipts were increased in the amount of $107,947 in order to bring amounts reported in the notes to the financial statements in line with actual receipts.

These errors were not identified and corrected prior to the District preparing its financial statements due to deficiencies in the District's internal controls over financial statement monitoring. The financial statements, notes to the financial statements, and District accounting records, as applicable, have been adjusted to reflect these errors. Sound financial reporting is the responsibility of the Treasurer and the Board of Education and is essential to ensure the information provided to the readers of the financial statements and notes to the financial statements is complete and accurate.

To help ensure the District's financial statements and notes to the financial statements are complete and accurate, the District should adopt policies and procedures, including a final review of the financial statements and notes to the financial statements by the Treasurer and Board of Education, to identify and correct errors and omissions.

Officials' Response:

All amounts were budgeted and board approved properly. In the first year of creating the footnotes ourselves, we learned we need to add encumbrances to the footnotes. This will be done as we submit our data for FY2017.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

FINDING NUMBER 2016-003

Finding Number	2016-003		
CFDA Title and Number	Title I Grants to Local Education Agencies – CFDA # 84.010		
Federal Award Identification Number / Year	2016		
Federal Agency	United States Department of Education		
Pass-Through Entity	Ohio Department of Education		
Repeat Finding from Prior Audit?	No	**Finding Number (if repeat)**	N/A

<u>Period of Performance – Questioned Cost / Noncompliance / Material Weakness</u>

2 CFR 200.309 provides in part that a non-federal entity may charge to the federal award only allowable costs incurred during the period of performance. The Ohio Department of Education (ODE) 2016 Continuous Comprehensive Improvement (CCIP) Consolidated Application for the Title I Grants to Local Educational Agencies defined the period of performance as July 1, 2015 to June 30, 2016. **34 C.F.R. 76.707** further provides that an obligation for personal services by an employee of the State or subgrantee occurs when the services are performed.

FINDING NUMBER 2016-003
(Continued)

The District charged $47,888 in compensation and fringe benefits for services performed prior to July 1, 2015 to their 2016 Title I Grants to Local Education Agencies program. These costs represent program teachers' compensation and fringe benefits for the July and August 2015 payrolls attributable to the 2015 contract year. The teachers had satisfied all 2015 contract obligations as of June 30, 2015. There were no pre-award costs authorized for this program.

Total questioned for expenditures outside the period of performance are forty seven thousand eight hundred and eighty-eighty dollars ($47,888) of the $422,161 spent on the Title I Grants to Local Education Agencies program during 2016.

We recommend the District use program funds only for expenditures obligated during the period of performance.

Officials' Response:

Please see Finding Number 2016-003 Corrective Action Plan on page 42.

PORT CLINTON CITY SCHOOL DISTRICT
OTTAWA COUNTY

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

Finding Number	Finding Summary	Status	Additional Information
2015-001	Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B) for reporting on a basis other than generally accepted accounting principles.	Not corrected and reissued as Finding 2016-001 in this report.	Please refer to Officials' Response to Finding 2016-001.
2015-002	OMB Circular A-87, Attachment B, paragraph 8.g.(2) questioned cost for payment of severance from Title I program as a direct cost.	Corrective action taken and finding is fully corrected.	

PORT CLINTON CITY SCHOOL DISTRICT
OTTAWA 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	No corrective action planned. Please refer to Officials' Response to Finding 2016-001.	N/A	Jeff Dornbusch, Treasurer
2016-002	Please refer to Officials' Response to Finding 2016-002.	06/30/2017	Jeff Dornbusch, Treasurer
2016-003	Title I monies were exhausted by June 30, 2015. July & August Title 1 salaries were technically stretch pay for the previous fiscal year, but were charged to the current year Title 1 allocation. There is no adjustment required per our federal grants administrator. We will not charge any summer stretch pay to the next allocation year going forward if our federal allocation is exhausted as it was last year.	02/15/2017	Jeff Dornbusch, Treasurer

Dave Yost • Auditor of State

PORT CLINTON CITY SCHOOL DISTRICT

OTTAWA 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
MARCH 30, 2017

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