



Dave Yost • Auditor of State

**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
PREBLE COUNTY
JUNE 30, 2016**

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**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
PREBLE COUNTY
JUNE 30, 2016**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Preble Shawnee Local School District
Preble County
124 Bloomfield Road
Camden, Ohio 45311

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying modified cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Preble Shawnee Local School District, Preble County, Ohio (the School District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the modified cash accounting basis Note 2 describes. This responsibility includes determining that the modified cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School 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 School District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Preble Shawnee Local School District, Preble County, Ohio, as of June 30, 2016, and the respective changes in modified cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Matters

Supplemental Information

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

The 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 not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2017, on our consideration of the School 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 School District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

June 1, 2017

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Preble Shawnee Local School District
Statement of Net Position - Modified Cash Basis
June 30, 2016

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$16,418,925
Non-Depreciable Capital Assets	247,991
Depreciable Capital Assets, Net	6,282,171
<i>Total Assets</i>	22,949,087
 Liabilities:	
Due Within One Year	64,998
Due in More Than One Year	1,255,000
<i>Total Liabilities</i>	1,319,998
 Net Position:	
Net Investment in Capital Assets	5,210,164
Restricted for:	
Debt Service	1,781,242
Classroom Facilities Maintenance	1,033,534
District Managed Activities	3,123
Federal and State Grants	2,429
Unrestricted	13,598,597
<i>Total Net Position</i>	\$21,629,089

See Accompanying Notes to the Basic Financial Statements

Preble Shawnee Local School District
Statement of Activities - Modified Cash Basis
For the Fiscal Year Ended June 30, 2016

	Program Receipts				Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Total Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$6,130,672	\$480,312	\$63,529	\$0	(\$5,586,831)
Special	1,645,045	26,525	1,041,362	0	(577,158)
Vocational	347,146	0	79,720	0	(267,426)
Support Services:					
Pupils	776,482	0	0	0	(776,482)
Instructional Staff	203,186	0	0	0	(203,186)
Board of Education	78,252	0	0	0	(78,252)
Administration	1,418,169	72,795	120,522	0	(1,224,852)
Fiscal	675,173	0	41,267	0	(633,906)
Business	2,490	0	0	0	(2,490)
Operation and Maintenance of Plant	2,095,061	0	0	74,333	(2,020,728)
Pupil Transportation	1,060,178	1,046	27,079	0	(1,032,053)
Central	98,822	0	5,400	0	(93,422)
Operation of Non-Instructional Services	737,182	213,773	412,510	0	(110,899)
Extracurricular Activities	348,277	86,223	3,280	0	(258,774)
Interest and Fiscal Charges	44,945	0	0	0	(44,945)
<i>Total Governmental Activities</i>	<u>\$15,661,080</u>	<u>\$880,674</u>	<u>\$1,794,669</u>	<u>\$74,333</u>	<u>(12,911,404)</u>
General Receipts:					
Property Taxes Levied For:					
General Purposes					2,997,633
Debt Service					162,235
Classroom Facilities					55,933
Income Tax					3,175,019
Grants and Entitlements not Restricted to					
Specific Programs					7,977,954
Investment Earnings					55,719
Gifts and Donations					5,617
Miscellaneous					180,945
<i>Total General Receipts</i>					<u>14,611,055</u>
<i>Change in Net Position</i>					1,699,651
<i>Net Position at Beginning of Year</i>					<u>19,929,438</u>
<i>Net Position at End of Year</i>					<u>\$21,629,089</u>

See Accompanying Notes to the Basic Financial Statements

Preble Shawnee Local School District
 Balance Sheet - Modified Cash Basis
 Governmental Funds
 June 30, 2016

	General Fund	Bond Retirement Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Cash Equivalents	<u>\$13,598,597</u>	<u>\$1,781,242</u>	<u>\$1,039,086</u>	<u>\$16,418,925</u>
Fund Balances:				
Restricted	\$0	\$1,781,242	\$1,039,086	\$2,820,328
Committed	538,251	0	0	538,251
Assigned	93,860	0	0	93,860
Unassigned	12,966,486	0	0	12,966,486
<i>Total Fund Balances</i>	<u>\$13,598,597</u>	<u>\$1,781,242</u>	<u>\$1,039,086</u>	<u>\$16,418,925</u>

See Accompanying Notes to the Basic Financial Statements

Preble Shawnee Local School District
 Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities - Modified Cash Basis
 June 30, 2016

Total Governmental Fund Balances	\$16,418,925
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	247,991	
Land Improvements	624,736	
Buildings and Improvements	14,817,623	
Furniture, Fixtures, and Equipment	1,668,845	
Vehicles	1,267,661	
Accumulated Depreciation	<u>(12,096,694)</u>	
Total Capital Assets		6,530,162

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

General Obligation Bonds Payable	<u>(1,319,998)</u>
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<i>Net Position of Governmental Activities</i>	<u><u>\$21,629,089</u></u>
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See Accompanying Notes to the Basic Financial Statements

Preble Shawnee Local School District
Statement of Cash Receipts, Disbursements and Changes in
Fund Balances - Modified Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General Fund	Bond Retirement Fund	Nonmajor Governmental Funds	Total Governmental Funds
Receipts:				
Property Taxes	\$2,997,633	\$162,235	\$55,933	\$3,215,801
Income Tax	3,175,019	0	0	3,175,019
Tuition and Fees	507,883	0	0	507,883
Investment Earnings	55,719	0	0	55,719
Intergovernmental	8,610,020	31,684	1,127,639	9,769,343
Extracurricular Activities	18,272	0	86,223	104,495
Gifts and Donations	5,617	0	77,613	83,230
Charges for Services	54,523	0	213,773	268,296
Miscellaneous	180,835	0	110	180,945
<i>Total Receipts</i>	<u>15,605,521</u>	<u>193,919</u>	<u>1,561,291</u>	<u>17,360,731</u>
Disbursements:				
Current:				
Instruction:				
Regular	5,829,017	0	62,406	5,891,423
Special	1,143,986	0	482,271	1,626,257
Vocational	330,150	0	0	330,150
Support Services:				
Pupils	775,719	0	0	775,719
Instructional Staff	185,280	0	0	185,280
Board of Education	78,252	0	0	78,252
Administration	1,297,582	0	120,340	1,417,922
Fiscal	668,472	4,483	1,947	674,902
Business	2,490	0	0	2,490
Operation and Maintenance of Plant	2,042,542	0	71,333	2,113,875
Pupil Transportation	1,160,847	0	0	1,160,847
Central	87,755	0	5,400	93,155
Operation of Non-Instructional Services	33,339	0	694,982	728,321
Extracurricular Activities	244,816	0	97,084	341,900
Debt Service:				
Principal Retirement	0	225,000	0	225,000
Interest and Fiscal Charges	0	44,945	0	44,945
<i>Total Disbursements</i>	<u>13,880,247</u>	<u>274,428</u>	<u>1,535,763</u>	<u>15,690,438</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,725,274</u>	<u>(80,509)</u>	<u>25,528</u>	<u>1,670,293</u>
Other Financing Sources (Uses):				
Advances In	123,812	0	121,000	244,812
Advances Out	(121,000)	0	(123,812)	(244,812)
Transfers In	124,541	0	76,304	200,845
Transfers Out	(76,304)	0	(124,541)	(200,845)
<i>Total Other Financing Sources (Uses)</i>	<u>51,049</u>	<u>0</u>	<u>(51,049)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	1,776,323	(80,509)	(25,521)	1,670,293
<i>Fund Balances at Beginning of Year</i>	<u>11,822,274</u>	<u>1,861,751</u>	<u>1,064,607</u>	<u>14,748,632</u>
<i>Fund Balances at End of Year</i>	<u>\$13,598,597</u>	<u>\$1,781,242</u>	<u>\$1,039,086</u>	<u>\$16,418,925</u>

See Accompanying Notes to the Basic Financial Statements

Preble Shawnee Local School District
 Reconciliation of the Statement of Cash Receipts, Disbursements and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities - Modified Cash Basis
 For the Fiscal Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds \$1,670,293

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

Governmental funds report capital outlays as disbursements. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation disbursements. In the current period, these amounts are:

Capital Outlay	304,893	
Depreciation Disbursement	<u>(482,489)</u>	
Excess of Depreciation Over Capital Outlay Disbursements		(177,596)

The cost of disposed capital assets is removed from the capital assets account on the Statement of Net Position resulting in a loss on disposal of capital assets on the statement of activities.

Loss on Disposal of Capital Assets		(18,046)
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Repayment of long-term debt is a disbursement in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

General Obligation Bonds Payments		<u>225,000</u>
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Change in Net Position of Governmental Activities \$1,699,651

See Accompanying Notes to the Basic Financial Statements

Preble Shawnee Local School District
Statement of Receipts, Disbursements and
Changes in Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Fiscal Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts:				
Property Taxes	\$2,888,175	\$2,997,633	\$2,997,633	\$0
Income Tax	3,079,384	3,175,019	3,175,019	0
Tuition and Fees	399,553	507,883	507,883	0
Investment Earnings	40,940	57,518	57,518	0
Intergovernmental	8,421,096	8,563,868	8,563,868	0
Extracurricular Activities	28,252	18,272	18,272	0
Gifts and Donations	9,185	5,617	5,617	0
Charges for Services	107,384	54,523	54,523	0
Miscellaneous	313,489	110,851	110,851	0
<i>Total Receipts</i>	<u>15,287,458</u>	<u>15,491,184</u>	<u>15,491,184</u>	<u>0</u>
Disbursements:				
Current:				
Instruction:				
Regular	5,454,952	6,036,373	6,036,373	0
Special	1,052,602	1,144,557	1,144,557	0
Vocational	337,043	337,876	337,876	0
Support Services:				
Pupils	828,321	777,607	777,607	0
Instructional Staff	185,650	185,280	185,280	0
Board of Education	76,743	80,532	80,532	0
Administration	1,352,928	1,306,843	1,306,843	0
Fiscal	687,122	672,039	672,039	0
Business	3,660	2,490	2,490	0
Operation and Maintenance of Plant	2,601,150	2,123,880	2,123,880	0
Pupil Transportation	1,299,468	1,326,533	1,326,533	0
Central	92,430	87,763	87,763	0
Operation of Non-Instructional Services	50,235	33,364	33,364	0
Extracurricular Activities	254,467	244,816	244,816	0
<i>Total Disbursements</i>	<u>14,276,771</u>	<u>14,359,953</u>	<u>14,359,953</u>	<u>0</u>
<i>Excess of Receipts Over Disbursements</i>	<u>1,010,687</u>	<u>1,131,231</u>	<u>1,131,231</u>	<u>0</u>
Other Financing Sources (Uses):				
Refund of Prior Year Disbursements	44,617	116,136	116,136	0
Advances In	497,000	123,812	123,812	0
Advances Out	(126,288)	(121,000)	(121,000)	0
Transfers In	0	124,541	124,541	0
Transfers Out	(215,964)	(76,304)	(76,304)	0
<i>Total Other Financing Sources (Uses)</i>	<u>199,365</u>	<u>167,185</u>	<u>167,185</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	1,210,052	1,298,416	1,298,416	0
<i>Fund Balance at Beginning of Year</i>	11,352,592	11,352,592	11,352,592	0
<i>Prior Year Encumbrances Appropriated</i>	459,314	459,314	459,314	0
<i>Fund Balance at End of Year</i>	<u>\$13,021,958</u>	<u>\$13,110,322</u>	<u>\$13,110,322</u>	<u>\$0</u>

See Accompanying Notes to the Basic Financial Statements

Preble Shawnee Local School District
Statement of Fiduciary Net Position - Modified Cash Basis
Fiduciary Funds
June 30, 2016

	Private Purpose Trust Fund	Agency Funds
Asset:		
Equity in Pooled Cash and Cash Equivalents	\$19,057	\$53,322
Net Position:		
Held in Trust for Scholarships	\$19,057	\$0
Held on Behalf of Students	0	53,322
<i>Total Net Position</i>	\$19,057	\$53,322

See Accompanying Notes to the Basic Financial Statements

Preble Shawnee Local School District
Statement of Changes in Fiduciary Net Position - Modified Cash Basis
Fiduciary Fund
For the Fiscal Year Ended June 30, 2016

	Private Purpose Trust Fund
Additions:	
Gifts and Contributions	\$1,525
Interest	26
	1,551
Deductions:	
Payments in Accordance with Trust Agreements	4,143
	(2,592)
<i>Change in Net Position</i>	
<i>Net Position at Beginning of Year</i>	21,649
<i>Net Position at End of Year</i>	\$19,057

See Accompanying Notes to the Basic Financial Statements

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

Note 1 - Description of the School District and Reporting Entity

Preble Shawnee Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The School District was established in 1968 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 89 square miles. It is located in Butler, Montgomery, and Preble Counties, including Gasper, German, Gratis, Israel, Lanier, Somers, and Wayne Townships.

Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Preble Shawnee Local School District, this includes general operations, food service, and student-related activities of the School District.

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

The School District participates in four jointly governed organizations, two insurance purchasing pools, and one shared risk pool. These organizations are presented in Notes 14 and 15 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

Southwest Ohio Computer Association
Southwestern Ohio Educational Purchasing Council
Southwestern Ohio Instructional Technology Association
Preble County Professional Development Consortium

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

Insurance Purchasing Pools:

Southwestern Ohio Educational Purchasing Council Workers'
Compensation Group Rating Plan
Ohio School Plan

Shared Risk Pool:

Preble County Schools Regional Council of Governments

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Preble Shawnee Local School District are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America. Generally accepted accounting principles (GAAP) include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. The more significant of the School District's accounting policies are described below.

Basis of Presentation

The School District's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Position and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the School District, except for fiduciary funds. The government-wide financial statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. The School District, however, does not have any activities that are presented as business-type.

The Statement of Net Position presents the cash balance, capital assets, and debt of the governmental activities of the School District at fiscal year-end. The government-wide Statement of Activities compares disbursements with program receipts for each function of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies

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

the extent to which each governmental function is self-financing on a modified cash basis or draws from the general revenues of the School District.

Fund Financial Statements:

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

Fund Accounting

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

Governmental Funds:

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

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

Bond Retirement Fund – The Bond Retirement Fund is used to account for and report various revenues collected for the payment of the general obligation bonded debt.

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

Fiduciary Funds:

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

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

account for student-managed activity programs and employee reimbursements of pretax medical premiums taken out of their payroll checks.

Basis of Accounting

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

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

Cash and Investments

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

During fiscal year 2016, the School District's investments were limited to negotiable certificates of deposit and State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's net asset value per share, which is the price the investment could be sold for on June 30, 2016.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of investment earnings. Interest credited to the General Fund during fiscal year 2016 was \$55,719, which included \$11,038 assigned from other School District funds.

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

Interfund Balances

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

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

Capital Assets

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets generally result from disbursements in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$2,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	45 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	6-8 years

Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid leave is not reflected as liabilities under the School District's modified cash basis of accounting.

Pensions

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

Long-Term Obligations

Long-term obligations are reported in the government-wide financial statements. The School District reported a liability for general obligation bonds.

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

Fund Balance

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

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. The School District did not have any nonspendable fund balances at fiscal year-end.

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

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education. State statute authorizes the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit fund balance.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first,

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

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.

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources for federal and State grants restricted to cash disbursement for specified purposes.

The School District applies restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position is available.

Internal Activity

Transfers within governmental activities are eliminated on the government-wide financial statements.

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

Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation 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 budgetary control has been established by the Board of Education at the fund level. The Treasurer has been authorized to allocate Board appropriations to the function and object level within all funds.

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

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

reported as the final budgeted amounts on the budgetary statements reflect the amounts in the amended certificate of estimated resources that was in effect at the time the final appropriations were passed.

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

Estimates

The modified cash basis of accounting used by the School District requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 3 - Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual (Budget Basis) is presented for the General Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the modified cash basis are outstanding year-end encumbrances treated as cash disbursements (budgetary basis) rather than restricted, committed, or assigned fund balance (modified cash basis).

1. Investments are recorded at fair value (modified cash basis) rather than cost (budget basis).
2. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statement. These amounts are included as revenue on the modified cash basis operating statement.
3. Encumbrances are treated as expenditures (budget basis) rather than as a restricted, committed, or assigned fund balance (modified cash basis).

The following table summarizes the adjustments necessary to reconcile the modified cash basis statement to the budgetary basis statement for the General Fund.

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

<u>Net Change in Fund Balance</u>	
	<u>General Fund</u>
Modified Cash Basis	\$1,776,323
Fair Value of Investment Fiscal Year 2015	6,791
Unrecorded Cash Fiscal Year 2015	3,577
Unrecorded Cash Fiscal Year 2016	(8,569)
Adjustment for Encumbrances	(479,706)
Budget Basis	<u>\$1,298,416</u>

Note 4 - Deposits and Investments

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

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

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

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

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that

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

investments in securities described in this division are made only through eligible institutions;

4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitations, bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided in the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked daily, and the term of the agreement must not exceed thirty days.

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

Investments

The School District reports their investments at cost. For certain investments, the fair value is different from the cost. As of June 30, 2016, the School District had the following investments:

	Measurement Amount	Maturity	Percent of Total Investments
Negotiable Certificates of Deposit	\$4,822,000	08/01/16 to 12/17/18	32.55%
STAROhio	9,994,132	Average 48.6 Days	67.45%
Total	\$14,816,132		

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The School District has no investment policy that addresses interest rate risk beyond State statute requirements. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

Concentration of Credit Risk

The School District's places no limit on the amount it may invest in any one issuer. The percentage that each investment represents of the total investments is listed in the table above.

Note 5 - Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015 on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

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

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

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

	2015 Second- Half Collections		2016 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$168,046,690	96.63%	\$168,188,210	96.60%
Public Utility Personal	5,867,430	3.37%	5,925,560	3.40%
<i>Total Assessed Values</i>	<u>\$173,914,120</u>	<u>100.00%</u>	<u>\$174,113,770</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$22.39		\$22.39	

Note 6 - Income Tax

The School District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991 and is a continuing tax. The School District levies an additional voted tax of three-fourths of a percent. The tax was effective on January 1, 2007 and is a five-year tax and was renewed early in August 2010 for an additional 5 years. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds.

Note 7 - Capital Assets

Capital assets activity for the fiscal year ended June 30, 2016 were as follows:

	Balance 6/30/2015	Additions	Deletions	Balance 6/30/2016
<u>Governmental Activities:</u>				
Capital Assets not Being Depreciated:				
Land	\$247,991	\$0	\$0	\$247,991
Capital Assets Being Depreciated:				
Land Improvements	553,403	71,333	0	624,736
Buildings and Improvements	14,817,623	0	0	14,817,623
Furniture, Fixtures, and Equipment	1,666,318	48,144	(45,617)	1,668,845
Vehicles	1,205,995	185,416	(123,750)	1,267,661
<i>Total Capital Assets Being Depreciated</i>	<u>18,243,339</u>	<u>304,893</u>	<u>(169,367)</u>	<u>18,378,865</u>
Less Accumulated Depreciation:				
Land Improvements	(289,675)	(22,396)	0	(312,071)
Buildings and Improvements	(9,314,840)	(318,368)	0	(9,633,208)
Furniture, Fixtures, and Equipment	(1,299,996)	(68,704)	38,071	(1,330,629)
Vehicles	(861,015)	(73,021)	113,250	(820,786)
<i>Total Accumulated Depreciation</i>	<u>(11,765,526)</u>	<u>(482,489) *</u>	<u>151,321</u>	<u>(12,096,694)</u>
<i>Capital Assets Being Depreciated, Net</i>	<u>6,477,813</u>	<u>(177,596)</u>	<u>(18,046)</u>	<u>6,282,171</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$6,725,804</u>	<u>(\$177,596)</u>	<u>(\$18,046)</u>	<u>\$6,530,162</u>

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

* Depreciation disbursement was charged to governmental functions as follows:

Instruction:	
Regular	\$239,249
Special	18,788
Vocational	19,991
Support Services:	
Pupils	763
Instructional Staff	17,906
Administration	17,151
Fiscal	271
Operation and Maintenance of Plant	52,519
Pupil Transportation	74,247
Central	5,667
Operation of Non-Instructional Services	29,560
Extracurricular Activities	6,377
<i>Total Depreciation Disbursement</i>	<u><u>\$482,489</u></u>

Note 8 - Risk Management

Property and Liability Insurance

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the School District, along with other school districts in Ohio, participated in the Ohio School Plan (OSP), an insurance purchasing pool. Each individual school district enters into an agreement with the OSP, and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP (see Note 14). The School District contracts for property, fleet, and liability insurance with OSP.

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage since last year.

Workers' Compensation

For fiscal year 2016, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience, and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Hunter Consulting provides administrative, cost control, and actuarial services to the GRP.

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

Employee Medical Benefits

For fiscal year 2016, the School District participated in the Preble County Schools Regional Council of Governments (the “Council”), a shared risk pool consisting of five local school districts and an educational service center (see Note 15). The School District pays monthly premiums to the Council for employee medical benefits. The Council is responsible for the management and operations of the program. Upon withdrawal from the Council, a participant is responsible for the payment of all of the School District’s liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

Note 9 - 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 School District’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

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

The School District’s contractually required contribution to SERS was \$324,470 for fiscal year 2016.

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

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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

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

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account

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

to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

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

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

The School District's contractually required contribution to STRS was \$727,666 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 School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.07624500%	0.04794503%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.07698480%</u>	<u>0.04981740%</u>	
Change in Proportionate Share	<u>0.00073980%</u>	<u>0.00187237%</u>	
Proportionate Share of the Net Pension Liability	\$4,392,827	\$13,768,072	\$18,160,899

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

Actuarial Assumptions - SERS

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

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

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

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

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

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

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

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

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

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$6,091,273	\$4,392,828	\$2,962,596

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 Schools 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:

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

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Nominal Rate of Return *</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	3.00
Total	<u>100.00 %</u>	

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

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$19,124,891	\$13,768,073	\$9,238,083

Social Security System

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

Note 10 – Post-Employment Benefits

School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the

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

Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the School District's surcharge obligation was \$39,539.

The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$57,867, and \$51,470, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

State Teachers Retirement System (STRS)

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. For the fiscal year ended June 30, 2014, one percent of covered payroll was allocated to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0 and \$48,855, respectively. The full amount has been contributed for 2016, 2015 and 2014.

Note 11 - Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. All unused vacation, up to a balance not greater than three years accrual, may be carried forward to the succeeding fiscal year. Sick leave may be accumulated up to a maximum of 220 days for classified employees and 225 days for certified

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

employees. Upon retirement, payment is made for 30 and 35 percent of accrued but unused sick leave credit at their daily rate upon retirement for classified and certified employees, respectively.

Life Insurance

The School District provides life insurance and accidental death and dismemberment insurance to all employees through Guardian Life.

Deferred Compensation Plan

Employees may elect to participate in the Ohio Public Employees Deferred Compensation Plan in accordance with Internal Revenue Code Section 457. The employees may also participate in a qualified annuity plan, sponsored by multiple providers, in accordance with Internal Revenue Code Section 403(b). Participation is on a voluntary payroll deduction basis. The plans permit deferral of compensation until future years. According to the plans, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

Note 12 - Long-Term Obligations

The changes in the School District's long-term obligations during fiscal year 2016 were as follows:

	Amount Outstanding 6/30/2015	Additions	Deductions	Amount Outstanding 6/30/2016	Amounts Due in One Year
<u>Governmental Activities:</u>					
School Improvement Refunding Current Interest Bonds - 2010 2.0 - 3.6%	\$1,480,000	\$0	\$225,000	\$1,255,000	\$0
School Improvement Refunding Capital Appreciation Bonds - 2010 - 3.9%	64,998	0	0	64,998	64,998
Total Governmental Activities Long-Term Liabilities	<u>\$1,544,998</u>	<u>\$0</u>	<u>\$225,000</u>	<u>\$1,319,998</u>	<u>\$64,998</u>

School Improvement Refunding General Obligation Bonds

The 2010 Refunding Bonds were issued in the amount of \$2,524,998 on September 16, 2009 for the purpose of refunding the 1999 School Improvement Bonds. Of the bonds, \$2,460,000 are current interest bonds and \$64,998 are capital appreciation bonds. The capital appreciation bonds, issued at \$64,998, are not subject to prior redemption. The capital appreciation bonds mature in fiscal year 2017 in the amount of \$230,000. The bonds reach final maturity in fiscal year 2022 and will be paid from the Bond Retirement Fund with property tax revenues.

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

The net proceeds of \$2,575,000 from the refunding bonds were used to purchase U.S. Government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1999 bonds. As a result, \$2,525,000 of the 1999 bonds are considered defeased, and the liability for the refunded portion of these bonds has been removed from the financial statements. The 1999 bonds were called on December 1, 2009 at 102 percent of the principal amount and paid off completely.

Principal and interest requirements to retire general obligation debt outstanding at fiscal year-end are as follows:

Fiscal Year Ending June 30,	General Obligation Current Interest Bonds		General Obligation Capital Appreciation Bonds	
	Principal	Interest	Principal	Interest
2017	\$0	\$41,570	\$64,998	\$165,002
2018	230,000	38,120	0	0
2019	240,000	30,830	0	0
2020	250,000	22,865	0	0
2021	260,000	14,320	0	0
2022	275,000	4,950	0	0
<i>Total</i>	<u>\$1,255,000</u>	<u>\$152,655</u>	<u>\$64,998</u>	<u>\$165,002</u>

The School District's overall legal debt margin was \$16,131,483 with an unvoted debt margin of \$174,114 at June 30, 2016.

Note 13 - Interfund Activity

At June 30, 2016, the General Fund made advances out of \$121,000 and received repayments of advances from Nonmajor Governmental Funds of \$123,812 during fiscal year 2016.

The General Fund made transfers to Nonmajor Governmental Funds in the amount of \$76,304 during fiscal year 2016, of which \$68,589 was transferred to food services. Transfers are used to move General Fund revenues that are used to subsidize various programs in other funds. The \$124,541 transfer to the General Fund from the nonmajor governmental fund was to close out the Tennis Courts Project Special Revenue Fund.

Note 14 - Jointly Governed Organizations and Insurance Purchasing Pools

Jointly Governed Organizations

Southwest Ohio Computer Association

The School District is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public school districts within the boundaries of Butler, Clinton, Hamilton, Montgomery, Warren, and Preble Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among

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

member school districts. The governing board of SWOCA consists of one representative from each district plus one representative from the fiscal agent. The Board exercises total control over the operations of the association including budgeting, appropriating, contracting and designation of management. Each school district's degree of control is limited to its representation on the Board. The School District paid SWOCA \$67,354 for services provided during the fiscal year. Financial information can be obtained from Donna Davis Norris, Executive Director of SWOCA at 3611 Hamilton-Middletown Road, Hamilton, Ohio 45011.

Southwestern Ohio Educational Purchasing Council

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of over 100 school districts and educational service centers in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services, including dental insurance, commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. The Board exercises total control over the operations of the council including budgeting, appropriating, contracting and designation of management. Each school district's degree of control is limited to its representation on the Board. Title to any and all equipment, furniture, and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year's prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations.

Payments to SOEPC are made from the General Fund. During fiscal year 2016, the School District paid \$870 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

Southwestern Ohio Instructional Technology Association

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of 21 representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene, and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members in the State-assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area. The Board exercises total control over the operations of the association including budgeting, appropriating, contracting and designation of management. Each school district's degree of control is limited to its representation on the Board.

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

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net position shall be distributed to the federal government, or to a State or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2016, the School District paid \$1,061 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Frank DePalma, who serves as Interim Executive Director, at 1205 East Fifth Street, Dayton, Ohio 45402.

Preble County Professional Development Consortium

The School District is a participant in the Preble County Professional Development Consortium (PCPDC). PCPDC is an association of public school districts within the boundaries of Preble County. The organization was formed to improve staff development and instructional functions by making optimum use of public funds through cooperation of member public school districts. The governing board of PCPDC consists of one representative from each district plus one representative from the fiscal agent. The Board exercises total control over the operations of the consortium including budgeting, appropriating, contracting and designation of management. Each school district's degree of control is limited to its representation on the Board. The School District paid PCPDC \$2,961 for services provided during the fiscal year. Financial information can be obtained from Kerry Borger, Treasurer, Preble County Educational Service Center, 597 Hillcrest Drive, Eaton, Ohio 45320 or email at kerry.borger@preblecountyesc.org.

Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven-member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center, and eight other members elected by majority vote of all member school districts. The Chief Administrator of the GRP serves as the coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Ohio School Plan

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The OSP was created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the sole purpose of enabling members of the OSP to provide for a formalized, jointly administered self-insurance program to maintain adequate self-insurance protection, risk management programs, and other administrative services. The OSP's business and affairs are conducted by a 13-member Board of Directors, consisting of school district superintendents and treasurers. The OSP has an agreement with Hylant Administrative Services,

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

LLC to provide underwriting, claims management, risk management, accounting, system support services, sales, and marketing to the OSP. Hylant Administrative Services, LLC also coordinates reinsurance brokerage services for the OSP.

Note 15 - Shared Risk Pool

Preble County Schools Regional Council of Governments

The Preble County Schools Regional Council of Governments (the “Council”), a shared risk pool, was formed by five local school districts and the Preble County Educational Service Center for the purpose of achieving lower rates for medical insurance. The Council is governed by an advisory committee consisting of each member’s superintendent or designee from each participating school district. Premiums are paid on a monthly basis to the Council and their designated insurance company. The Council is responsible for the operation and maintenance of the program. If the premiums are insufficient to pay the program costs for the fiscal year, the Council may assess additional charges to all participants. The Preble County Educational Service Center serves as coordinator of the Council. Financial information can be obtained from Kerry Borger, who serves as Fiscal Officer, at 597 Hillcrest Drive, Eaton, Ohio 45320.

Note 16 - Set-Aside Calculations

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

The School District is no longer required to set aside funds in the budget stabilization reserve set-aside, with the exception of refunds received from the Bureau of Workers’ Compensation, which must be spent for specified purposes.

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

	Budget Stabilization	Capital Improvements
Set-aside Restricted Balance as of		
June 30, 2015	\$2,116	\$0
Current Fiscal Year Set-aside Requirement	0	239,260
Qualifying Disbursements	(2,116)	(233,797)
Current Fiscal Year Offsets	0	(55,933)
<i>Totals</i>	\$0	(\$50,470)
<i>Set-aside Balance Carried Forward to Future Fiscal Years</i>	\$0	\$0

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

Amounts of offsets and qualifying expenditures presented in the table for the capital acquisition set-asides were limited to those necessary to reduce the year-end balance to zero. Although the School District may have had additional offsets and qualifying expenditures for capital acquisitions, these amounts may not be used to reduce the set-aside requirements of future fiscal years and, therefore, is not presented as being carried forward to the next fiscal year.

Note 17 - Fund Balances

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

Fund Balances	General Fund	Retirement Fund	Governmental Funds	Governmental Funds
<i>Restricted for</i>				
Debt Service Payments	\$0	\$1,781,242	\$0	\$1,781,242
Classroom Facilities Maintenance	0	0	1,033,534	1,033,534
District Managed Activities	0	0	3,123	3,123
Federal and State Grants	0	0	2,429	2,429
<i>Total Restricted</i>	<u>0</u>	<u>1,781,242</u>	<u>1,039,086</u>	<u>2,820,328</u>
<i>Committed to</i>				
Purchases on Order	385,844	0	0	385,844
Employee Reimbursements	152,407	0	0	152,407
<i>Total Committed</i>	<u>538,251</u>	<u>0</u>	<u>0</u>	<u>538,251</u>
<i>Assigned to</i>				
Purchases on Order	93,860	0	0	93,860
<i>Unassigned</i>	<u>12,966,486</u>	<u>0</u>	<u>0</u>	<u>12,966,486</u>
<i>Total Fund Balances</i>	<u><u>\$13,598,597</u></u>	<u><u>\$1,781,242</u></u>	<u><u>\$1,039,086</u></u>	<u><u>\$16,418,925</u></u>

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

Note 18 – Significant Commitments

Encumbrances

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

General Fund	\$479,706
Nonmajor Governmental Funds	13,038
Total	<u><u>\$492,744</u></u>

Note 19 - Contingencies

Grants

The School District received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2016.

School Foundation

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

Litigation

The School District is not currently a party to any legal proceedings.

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

Note 20 - Compliance

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

PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
PREBLE COUNTY

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

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	10.555	N/A		\$43,052
Cash Assistance:				
School Breakfast Program	10.553	N/A	\$133,729	
National School Lunch Program	10.555	N/A	271,644	
Total Child Nutrition Cluster			<u>405,373</u>	<u>43,052</u>
Total U.S. Department of Agriculture			<u>405,373</u>	<u>43,052</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
Title I Grants to Local Educational Agencies	84.010	N/A	295,961	
Special Education Cluster:				
Special Education_Grants to States	84.027	H027A160111	292,589	
Special Education_Preschool Grants	84.173	H173A160119	3,926	
Total Special Education Cluster			<u>296,515</u>	
Improving Teacher Quality State Grants	84.367	N/A	72,538	
Total U.S. Department of Education			<u>665,014</u>	
Total			<u>\$1,070,387</u>	<u>\$43,052</u>

The accompanying notes are an integral part of this schedule.

**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
PREBLE 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 the Preble Shawnee Local School District (the School District's) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position or changes in net position of the School 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 School 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 School District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School District assumes it expends federal monies first.

NOTE D – FOOD DONATION PROGRAM

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



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

Preble Shawnee Local School District
Preble County
124 Bloomfield Road
Camden, Ohio 45311

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 modified cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Preble Shawnee Local School District, Preble County, (the School District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated June 1, 2017, wherein we noted the School District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the School 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 School District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

School District's Response to Finding

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

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

June 1, 2017



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

Preble Shawnee Local School District
Preble County
124 Bloomfield Road
Camden, Ohio 45311

To the Board of Education:

Report on Compliance for the Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to opine on the School District's compliance for the School District's major federal program 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 School 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 the School District's major program. However, our audit does not provide a legal determination of the School District's compliance.

Opinion on the Major Federal Program

In our opinion, the Preble Shawnee Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2016.

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Report on Internal Control Over Compliance

The School 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 School 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 School District's internal control over compliance.

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

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

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



Dave Yost
Auditor of State
Columbus, Ohio

June 1, 2017

**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

**SCHEDULE OF FINDINGS
2 C.F.R. § 200.515
JUNE 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 C.F.R. § 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 C.F.R. §200.520?	No

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

FINDING NUMBER 2016-001

Noncompliance

Ohio Rev. Code § 117.38 provides, in part, 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 further clarifies the requirements of Ohio Revised Code § 117.38.

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

Officials' Response:

Several years ago the District changed to modified cash basis of accounting in order to save money. At this point it would be too expensive to switch back to generally accepted accounting principles.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

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

Finding Number	Finding Summary	Status	Additional Information
2015-001	<p>Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B) - Failure to report in accordance with generally accepted accounting principles. Initially occurred in FY06.</p>	<p>Not Corrected. Repeated as Finding 2016-001.</p>	<p>The District changed to modified cash basis of accounting in order to save money. At this point the District believes it would be too expensive to switch back to generally accepted accounting principles.</p>

**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT
PREBLE 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	The Preble Shawnee Local School District does not believe a corrective action is needed. The District changed to modified cash basis of accounting in order to save money. At this point the District believes it would be too expensive to switch back to generally accepted accounting principles.	N/A	Mollie Hansel, Treasurer



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PREBLE SHAWNEE LOCAL SCHOOL DISTRICT

PREBLE 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
JUNE 20, 2017**