



Dave Yost • Auditor of State

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
 LICKING COUNTY
 JUNE 30, 2016**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Southwest Licking Local School District
Licking County
927-A South Street
Pataskala, Ohio 43062

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Southwest Licking Local School District, Licking County, Ohio, as of June 30, 2016, and the respective changes in 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 District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental Information

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

The 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 Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

March 8, 2017

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SOUTHWEST LICKING LOCAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (UNAUDITED)

As management of the Southwest Licking Local School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016, within the limitations of the District's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

- Net position of governmental activities increased approximately \$4.7 million, or 37 percent, in comparison with the prior year. The fund most affected by the increase in cash and investments was the General Fund, which increased approximately \$3.3 million during the fiscal year.
- The District's general receipts are primarily property taxes, income taxes, and intergovernmental aid. These receipts represent 38%, 11%, and 37% of the total cash received, respectively, for governmental activities during the year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was approximately \$12.3 million, or 35 percent of total General Fund disbursements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-wide Financial Statements. The Statement of Net Position – Cash Basis presents the cash balances and investments of the governmental activities of the District at year end.

The Statement of Activities – Cash Basis compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the District's general receipts.

The government-wide financial statements include not only the District itself (known as the primary government), but also a legally separate Southwest Licking Digital Academy for which the District is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Governmental Funds

The governmental fund financial statements provide a detailed view of the District’s governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the District’s programs. The District’s significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The District’s major governmental funds were the General Fund, Permanent Improvement Fund, and Debt Service Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

The District adopts an annual appropriated budget. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District’s own programs.

Notes to the Basic Financial Statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

An analysis of fiscal year 2016 in comparison with fiscal year 2015 follows for the Statement of Net Position – Cash Basis:

	2016	2015	Change
Cash and Cash Equivalents	\$ 17,135,647	\$ 12,469,311	37.42%
Total Assets	17,135,647	12,469,311	37.42%
Restricted for:			
Debt Service	1,418,588	1,351,544	4.96%
Permanent Improvements	2,061,848	733,794	180.98%
Unexpended Grants	220,810	303,345	-27.21%
Food Service	440,516	440,588	-0.02%
Extracurricular Activities	133,451	108,192	23.35%
Other Purposes	23,369	7,475	212.63%
Unrestricted	12,837,065	9,524,373	34.78%
Total Net Position	\$ 17,135,647	\$ 12,469,311	37.42%

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Government-wide Financial Analysis (continued)

As mentioned previously, net position of governmental activities increased approximately \$4.7 million, or 37 percent, in comparison with the prior year.

A significant portion of the District's net position (25 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$12.8 million) may be used to meet the District's ongoing obligations to citizens and creditors.

An analysis of fiscal year 2016 in comparison with fiscal year 2015 follows for the Statement of Activities –Cash Basis:

	<u>2016</u>	<u>2015</u>
Program Receipts		
Charges for Services	\$ 1,614,308	\$ 1,759,131
Operating Grants	2,152,001	2,399,508
General Receipts		
Property Taxes	17,998,703	17,416,858
Income Taxes	5,394,400	5,050,003
Grants and Entitlements	17,504,549	16,524,758
Sale of Bonds/Notes	6,489,873	-
Payments in Lieu of Taxes	187,680	145,806
Investment Earnings	95,848	29,143
Miscellaneous	297,955	258,254
Total Receipts	<u>51,735,317</u>	<u>43,583,461</u>
Program Disbursements		
Instructional	22,599,939	22,307,158
Support Services	13,589,056	13,065,087
Non-instructional	1,535,902	1,457,052
Extra Curricular Activities	833,275	804,447
Capital Outlay	706,297	468,271
Principal Payments	2,181,953	2,095,857
Interest and Fiscal Charges	348,352	566,400
Payment to Refunding Bond Escrow Agent	5,119,706	-
Bond Issuance Costs	154,501	-
Total Disbursements	<u>47,068,981</u>	<u>40,764,272</u>
Change in Net Position	<u>4,666,336</u>	<u>2,819,189</u>
Net Position at Beginning of Year	<u>12,469,311</u>	<u>9,650,122</u>
Net Position at End of Year	<u>\$ 17,135,647</u>	<u>\$ 12,469,311</u>

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Government-wide Financial Analysis (continued)

Grants and Entitlements increased slightly in comparison with the prior fiscal year. This increase is the result of an increase in per pupil aid as well as an increase in enrollment.

Sale of Bonds/Notes receipts increased significantly due to the District issuing refunding bonds at a premium, totaling \$5,211,711, as well as a tax anticipation note at a premium, totaling \$1,278,162, during the fiscal year.

General receipts represent 93 percent of the District's total receipts, and of this amount, 49 percent are local taxes. State and federal grants and entitlements make up 37 percent of the District's general receipts. Other receipts are insignificant and somewhat unpredictable revenue sources.

The major program disbursements for governmental activities are for instruction and support services, which account for 48 and 29 percent of all governmental disbursements, respectively.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

	Fiscal Year 2016		Fiscal Year 2015	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Program expenses				
Instructional	\$ 22,599,939	\$ 21,244,782	\$ 22,307,158	\$ 20,674,569
Support services	13,589,056	13,194,996	13,065,087	12,535,931
Non-instructional	1,535,902	24,751	1,457,052	(42,258)
Extra Curricular Activities	833,275	327,334	804,447	306,863
Capital Outlay	706,297	706,297	468,271	468,271
Debt Service	7,804,512	7,804,512	2,662,257	2,662,257
Total	\$ 47,068,981	\$ 43,302,672	\$ 40,764,272	\$ 36,605,633

The dependence upon tax and other general revenues is apparent, as 94 percent of instructional activities are supported through taxes and other general revenues. For all Governmental activities, support from general receipts is 92 percent. The District's taxpayers and unrestricted grants and entitlements from the State are by far the primary support for the District's students.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)**

Financial Analysis of the District’s Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

As of the end of the current fiscal year, the District’s governmental funds reported combined ending fund balances of approximately \$17.1 million, an increase of approximately \$4.7 million in comparison with the prior fiscal year.

Of this amount, approximately \$12.3 million is available for spending at the District’s discretion. The remainder of fund balance is nonspendable (\$23,369), restricted (\$4.3 million), committed (\$11,000) or assigned (\$491,874).

An analysis of fiscal year 2016 in comparison with fiscal year 2015 follows:

<u>Fund:</u>	<u>As of June 30, 2016</u>	<u>As of June 30, 2015</u>	<u>Change</u>
General Fund	\$ 12,860,434	\$ 9,533,522	34.90%
Permanent Improvement Fund	2,061,848	733,794	180.98%
Debt Service Fund	1,418,588	1,351,544	4.96%
Other Governmental Funds	794,777	850,451	-6.55%
Total Fund Balance	<u>\$ 17,135,647</u>	<u>\$ 12,469,311</u>	37.42%

The fund balance of the General Fund increased approximately \$3.3 million during the fiscal year. General Fund receipts increased approximately \$1.5 million, primarily as a result of an increase in per pupil aid from the Ohio Department of Education. General Fund disbursements also increased approximately \$1.5 million. This increase primarily represents inflation.

The Permanent Improvement Fund balance increased approximately \$1.3 million during the fiscal year. This increase is primarily the result of tax anticipation note proceeds, including premium, of \$1.3 million.

The Debt Service Fund balance also increased slightly during the fiscal year. This increase represents the amount in which property tax and related receipts and transfers in from other funds exceeded debt service disbursements.

General Fund Budget Information

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

Final estimated resources were less than original estimated resources by \$134,870 while final appropriations exceeded original appropriations by \$497,196.

Actual revenues and other financing sources exceeded the final revenues and other financing sources estimate by \$807,056, primarily as a result of greater than expected property and income tax receipts. Final appropriations exceeded actual expenditures and other financing uses by approximately \$1.3 million as a result of conservative spending.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016 (UNAUDITED)

Capital Assets

The District is not required to disclose capital assets on the cash basis of accounting but has elected to do so in the note disclosures. At the end of the fiscal year, the District had approximately \$26.2 million (net of accumulated depreciation) invested in capital assets, a decrease of \$846,729 in comparison with the prior fiscal year. This decrease represents the amount by which current year depreciation expense of approximately \$1.1 million exceeded current year additions of \$249,929. Detailed information regarding capital asset activity can be found in the Note 9 to the basic financial statements.

Debt

At the end of the fiscal year, the District had total debt outstanding of approximately \$15.6 million, a decrease of \$635,853 from fiscal year 2015. This decrease represents principal payments and premium amortization of approximately \$7.3 million, offset by new issuances and current year accretion totaling approximately \$6.6 million.

Detailed information regarding long-term obligations can be found in Note 10 to the basic financial statements. Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total taxable valuation of real and personal property. As of June 30, 2016, the District's general obligation debt was below the legal limit.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information you may contact Richard D. Jones, Treasurer/CFO, Southwest Licking Local School District, 927-A South Street, Pataskala, Ohio 43062 or E-Mail at rdjones@laca.org.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**STATEMENT OF NET POSITION - CASH BASIS
AS OF JUNE 30, 2016**

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental</u>	<u>Southwest Licking</u>
	<u>Activities</u>	<u>Digital Academy</u>
Assets		
Cash and Cash Equivalents	\$ 17,107,653	\$ 25,000
Cash in a Segregated Account	4,625	-
Restricted Cash and Cash Equivalents	23,369	-
Total Assets	17,135,647	25,000
Net Position		
Restricted for:		
Debt Service	1,418,588	-
Permanent Improvements	2,061,848	-
State and Federal Grants	220,810	-
Food Services	440,516	-
Extracurricular Activities	133,451	-
Other Purposes	23,369	-
Unrestricted	12,837,065	25,000
Total Net Position	\$ 17,135,647	\$ 25,000

See accompanying notes to the basic financial statements.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities	Component Unit Southwest Licking Digital Academy
Governmental Activities					
Instruction					
Regular Instruction	\$ 14,460,297	\$ 206,785	\$ 1,368	\$ (14,252,144)	\$ -
Special Instruction	5,907,969	70,659	961,896	(4,875,414)	-
Vocational Instruction	174,484	2,512	-	(171,972)	-
Other Instruction	2,057,189	26,256	85,681	(1,945,252)	-
Support Services					
Pupils	1,796,496	24,560	83,061	(1,688,875)	-
Instructional Staff	1,711,954	20,254	112,543	(1,579,157)	-
Board of Education	94,440	1,360	-	(93,080)	-
Administration	2,974,028	53,323	600	(2,920,105)	-
Fiscal Services	999,620	13,595	-	(986,025)	-
Business Operations	52,260	752	-	(51,508)	-
Operation and Maintenance of Plant	2,774,926	38,350	-	(2,736,576)	-
Pupil Transportation	2,824,471	37,072	1,385	(2,786,014)	-
Central	360,861	5,135	2,070	(353,656)	-
Non-instructional	1,535,902	650,969	860,182	(24,751)	-
Extra Curricular Activities	833,275	462,726	43,215	(327,334)	-
Capital Outlay	706,297	-	-	(706,297)	-
Principal Payments	2,181,953	-	-	(2,181,953)	-
Interest and Fiscal Charges	348,352	-	-	(348,352)	-
Payment to Refunding Bond					
Escrow Agent	5,119,706	-	-	(5,119,706)	-
Bond Issuance Costs	154,501	-	-	(154,501)	-
Total Governmental Activities	\$ 47,068,981	\$ 1,614,308	\$ 2,152,001	(43,302,672)	-
Component Unit	266,108	-	1,248	-	(264,860)
Southwest Licking Digital Academy	\$ 266,108	\$ -	\$ 1,248	\$ -	\$ (264,860)
General Receipts					
Property Taxes Levied for:					
General Purposes				14,906,201	-
Debt Service				1,623,779	-
Capital Projects				1,468,723	-
Income Taxes				5,394,400	-
Grants & Entitlements not Restricted				17,504,549	238,447
Payment in Lieu of Taxes				187,680	-
Proceeds from Sale of Bonds/Notes				6,489,873	-
Investment Earnings				95,848	84
Miscellaneous				297,955	-
Total General Receipts				47,969,008	238,531
Change in Net Position				4,666,336	(26,329)
Net Position Beginning of Year				12,469,311	51,329
Net Position End of Year				\$ 17,135,647	\$ 25,000

See accompanying notes to the basic financial statements.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

BALANCE SHEET - CASH BASIS
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2016

	General Fund	Permanent Improvement Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and Cash Equivalents	\$ 12,837,065	\$ 2,061,848	\$ 1,418,588	\$ 790,152	\$ 17,107,653
Cash in a Segregated Account	-	-	-	4,625	4,625
Restricted Cash and Cash Equivalents	23,369	-	-	-	23,369
Total Assets	\$ 12,860,434	\$ 2,061,848	\$ 1,418,588	\$ 794,777	\$ 17,135,647
Fund Balances:					
Nonspendable:					
Unclaimed Monies	\$ 23,369	\$ -	\$ -	\$ -	\$ 23,369
Restricted for:					
Debt Service	-	-	1,418,588	-	1,418,588
Permanent Improvements	-	2,061,848	-	-	2,061,848
State and Federal Grants	-	-	-	220,810	220,810
Food Services	-	-	-	440,516	440,516
Extracurricular Activities	-	-	-	133,451	133,451
Other Purposes	233	-	-	-	233
Committed for:					
Underground Storage	11,000	-	-	-	11,000
Assigned for:					
School Support	95,178	-	-	-	95,178
Instruction	21,409	-	-	-	21,409
Support Services	159,365	-	-	-	159,365
Capital Outlay	215,922	-	-	-	215,922
Unassigned	12,333,958	-	-	-	12,333,958
Total Fund Balances	\$ 12,860,434	\$ 2,061,848	\$ 1,418,588	\$ 794,777	\$ 17,135,647

See accompanying notes to the basic financial statements.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	Permanent Improvement Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Receipts:					
Property Taxes	\$ 14,906,201	\$ 1,468,723	\$ 1,623,779	\$ -	\$ 17,998,703
Income Taxes	5,394,400	-	-	-	5,394,400
Payments in Lieu of Taxes	5,134	182,546	-	-	187,680
Intergovernmental	17,094,429	203,994	206,126	2,093,786	19,598,335
Charges for Services	10,507	-	-	624,022	634,529
Interest	83,895	8,106	-	3,847	95,848
Tuition and Fees	490,106	-	-	-	490,106
Extracurricular Activities	183,987	-	-	235,063	419,050
Other	245,944	31,155	-	21,404	298,503
Total Receipts	38,414,603	1,894,524	1,829,905	2,978,122	45,117,154
Disbursements:					
Instruction:					
Regular	14,360,424	99,873	-	-	14,460,297
Special	4,906,995	-	-	1,000,974	5,907,969
Vocational	174,484	-	-	-	174,484
Other	1,823,405	142,098	-	91,686	2,057,189
Support services:					
Pupils	1,705,585	-	-	90,911	1,796,496
Instructional Staff	1,406,559	192,874	-	112,521	1,711,954
Board of Education	94,440	-	-	-	94,440
Administration	2,973,436	-	-	592	2,974,028
Fiscal Services	944,107	29,956	25,557	-	999,620
Business Operations	52,260	-	-	-	52,260
Operation and Maintenance of Plant	2,663,243	111,683	-	-	2,774,926
Pupil Transportation	2,574,516	248,589	-	1,366	2,824,471
Central	356,627	2,192	-	2,042	360,861
Non-instructional Services	8,018	-	-	1,527,884	1,535,902
Extracurricular Activities	599,941	-	-	233,334	833,275
Capital Outlay	484,626	221,671	-	-	706,297
Debt service:					
Principal Retirement	-	-	2,181,953	-	2,181,953
Interest and Fiscal Charges	-	-	348,352	-	348,352
Bond Issuance Costs	-	67,003	87,498	-	154,501
Total Disbursements	35,128,666	1,115,939	2,643,360	3,061,310	41,949,275
Excess (Deficiency) of Receipts Over (Under) Disbursements	3,285,937	778,585	(813,455)	(83,188)	3,167,879
Other Financing Sources (Uses):					
Donations	30,706	-	-	27,509	58,215
Proceeds from Sale of Assets	6,247	55,346	-	5	61,598
Insurance Proceeds	4,022	4,455	-	-	8,477
Premium on Bonds/Notes	-	68,162	251,711	-	319,873
Proceeds from the Sale of Bonds/Notes	-	1,210,000	4,960,000	-	6,170,000
Payment to Refunding Bond Escrow Agent	-	-	(5,119,706)	-	(5,119,706)
Transfers In	-	-	788,494	-	788,494
Transfers Out	-	(788,494)	-	-	(788,494)
Total Other Financing Sources (Uses)	40,975	549,469	880,499	27,514	1,498,457
Net Change in Fund Balances	3,326,912	1,328,054	67,044	(55,674)	4,666,336
Fund Balance Beginning of Year	9,533,522	733,794	1,351,544	850,451	12,469,311
Fund Balance End of Year	\$ 12,860,434	\$ 2,061,848	\$ 1,418,588	\$ 794,777	\$ 17,135,647

See accompanying notes to the basic financial statements.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual	Variance Over/(Under)
Receipts:				
Property Taxes	\$ 14,497,901	\$ 14,497,901	\$ 14,906,201	\$ 408,300
Income Taxes	5,234,771	5,234,771	5,394,400	159,629
Payments in Lieu of Taxes	154,853	4,853	5,134	281
Intergovernmental	16,961,899	16,960,967	17,094,429	133,462
Charges for Services	40,000	40,000	10,507	(29,493)
Earnings on Investments	30,000	30,000	83,301	53,301
Tuition & Fees	518,287	516,355	490,106	(26,249)
Extracurricular Activities	165,630	167,562	177,152	9,590
Miscellaneous	96,310	112,372	214,338	101,966
Total Receipts	<u>37,699,651</u>	<u>37,564,781</u>	<u>38,375,568</u>	<u>810,787</u>
Disbursements:				
Instruction:				
Regular	15,884,340	15,956,524	14,597,014	1,359,510
Special	4,949,230	4,950,509	4,907,736	42,772
Vocational	203,212	203,212	174,484	28,728
Other	1,628,546	1,629,944	1,823,405	(193,461)
Support Services:				
Pupils	1,915,162	1,945,053	1,705,372	239,681
Instructional Staff	1,180,509	1,521,599	1,471,980	49,619
Board of Education	89,875	89,875	94,440	(4,565)
Administration	3,009,557	3,010,795	2,973,436	37,359
Fiscal	919,960	925,710	950,791	(25,081)
Business	82,615	84,844	52,595	32,249
Operation and Maintenance of Plant	2,731,010	2,736,292	2,702,073	34,219
Pupil Transportation	2,640,148	2,639,133	2,582,264	56,869
Central	452,543	490,413	396,974	93,439
NonInstructional Services	7,000	7,000	8,018	(1,018)
Extracurricular Activities	544,854	544,854	527,767	17,087
Capital Outlay	-	-	484,626	(484,626)
Total Disbursements	<u>36,238,560</u>	<u>36,735,756</u>	<u>35,452,975</u>	<u>1,282,782</u>
Excess of Receipts Over Disbursements	<u>1,461,091</u>	<u>829,025</u>	<u>2,922,593</u>	<u>2,093,569</u>
Other Financing Sources (Uses):				
Donations	3,208	3,208	-	(3,208)
Sale of Capital Assets	792	792	6,247	5,455
Insurance Proceeds	10,000	10,000	4,022	(5,978)
Transfers -In	415,000	415,000	396,415	(18,585)
Transfers -Out	(415,000)	(415,000)	(396,415)	18,585
Total Other Financing Sources (Uses)	<u>14,000</u>	<u>14,000</u>	<u>10,269</u>	<u>(3,731)</u>
Net Change in Fund Balance	1,475,091	843,025	2,932,862	2,089,838
Fund Balances at Beginning of Year	9,242,154	9,242,154	9,242,154	-
Prior Year Encumbrances Appropriated	182,544	182,544	182,544	-
Fund Balances at End of Year	<u>\$ 10,899,789</u>	<u>\$ 10,267,723</u>	<u>\$ 12,357,560</u>	<u>\$ 2,089,838</u>

See accompanying notes to the basic financial statements.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - CASH BASIS
FIDUCIARY FUNDS
AS OF JUNE 30, 2016

	<u>Agency Fund</u>
Assets	
Cash and Cash Equivalents	\$ 24,563
Total Assets	<u>\$ 24,563</u>
Liabilities	
Held for Student Liabilities	\$ 24,563
Total Liabilities	<u>\$ 24,563</u>

See accompanying notes to the basic financial statements.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 – DESCRIPTION OF THE REPORTING ENTITY

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

The District was established in 1953 through the consolidation of existing land areas and school districts. The District serves an area of approximately 65 square miles. It is located in Licking County, and includes the City of Pataskala, the Village of Kirkersville, and portions of Etna, Harrison, St. Albans, and Union Townships in Licking County and Liberty Township in Fairfield County. The District is staffed by 173 classified personnel and 251 certified full-time personnel who provide services to 4,151 students and other community members. The District currently operates six instructional buildings, one administrative building, and one support service building.

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

The following activities are included within the reporting entity:

Private School – Liberty Christian Academy, a private school, operates within the District’s boundaries. Current state legislation provides funding to the private school. This money is received and disbursed on behalf of the private school by the Treasurer of the District, as directed by the private school in accordance with State rules and regulations. This activity is reflected in a special revenue fund in Other Governmental Funds for financial reporting purposes.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization’s governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization’s resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes.

Discretely Presented Component Unit The component unit information on the Statement of Net Position – Cash Basis and the Statement of Activities – Cash Basis identifies the financial data of the District’s Component Unit, the Southwest Licking Digital Academy (the Academy). The Academy is reported separately to emphasize that it is legally separate from the District.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 – DESCRIPTION OF THE REPORTING ENTITY (Continued)

Southwest Licking Digital Academy In March of 2003, the District’s Board of Education, by resolution, created the Academy pursuant to Ohio Revised Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Academy’s mission is to enhance and facilitate student learning by providing state of the art digital curriculum and instruction; innovative, collaborative leadership; and technical expertise and support that will prepare students to become lifelong learners and intelligent decision makers. The students may include, but will not be limited to, home schooled children, children with special physical and mental needs, students removed from the regular classroom for discipline concerns, students who need an alternative to the traditional classroom for various reasons, including religious reasons, transient students, and students within the District (the Academy’s sponsor school district) that desire a specific course not currently offered that is available through online instruction. The Academy operates under the direction of a five-member Board of Directors made up of members from the public who are appointed by the District. A majority of the members shall be elected or appointed public officials or public employees, or shall be community leaders who have demonstrated a professional interest in education or in other issues involving children. The remaining members shall be persons who are parents of students who are expected to attend the Academy. The Academy’s Board may adopt budgets, hire and fire employees, and receive funding from the Ohio Department of Education. The Academy is a component unit of the District. The District appoints a majority of the Board of Directors and is able to impose its will on the Academy. The District can suspend the Academy’s operations for any of the following reasons: 1) failure to meet student performance requirements stated in its contract with the District, 2) failure to meet generally accepted standards of fiscal management, 3) violation of any provisions of the contract with the District or applicable state or federal law, or 4) other good cause. Separately issued financial statements can be obtained from the Southwest Licking Digital Academy, 927-A South Street, Pataskala, Ohio 43062.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of Presentation

The District’s basic financial statements consist of government-wide financial statements, including a Statement of Net Position – Cash Basis and a Statement of Activities – Cash Basis, and fund financial statements – cash basis which provide a more detailed level of financial information.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of Presentation (Continued)

Government-Wide Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position – Cash Basis and the Statement of Activities – Cash Basis) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities (the District has none), which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities – Cash Basis compares disbursements with program receipts for each function or program of the 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 receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the District's general receipts.

Fund Financial Statements

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

(b) Fund Accounting

The 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 District are divided into two categories, governmental and fiduciary.

Governmental Funds

The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The District only reports the following major governmental funds:

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Fund Accounting (Continued)

Governmental Funds (Continued)

General Fund — The General Fund is the District’s primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. The General Fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Permanent Improvement Fund — The Permanent Improvement Fund is used to account for financial resources to be used for the acquisition and/or construction of major capital facilities.

Debt Service Fund — The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Other Governmental Funds of the District account for specific revenue sources that are restricted for specified purposes other than debt service or capital projects. These funds are aggregated and shown in a single column on the financial statements.

Proprietary Funds – Proprietary funds consist of enterprise funds, which are used to report any activity for which a fee is charged to external users for goods or services, and internal service funds, which are used to allocate costs of centralized services. The District reports no proprietary funds.

Fiduciary Funds — Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for others and therefore cannot be used to support the District’s own programs. Fiduciary funds include pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The District's only fiduciary funds are agency funds which account for student activities and OHSAA activities.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements; however, interfund services provided and used are not eliminated.

(c) Basis of Accounting

Although required by Ohio Administrative Code 117-2-03(B) to prepare its annual financial statements and notes in accordance with GAAP, the District chooses to prepare its financial statements using the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than GAAP. Receipts are recorded in the 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 District are described in the appropriate section in this note.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of Accounting (Continued)

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

(d) Budgetary Data

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the certificate of estimated resources and the appropriations resolution, each of which are prepared on the budgetary basis of accounting. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures 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 for all funds. Although the legal level of control was established at the fund level of expenditures, the District has elected to present the budgetary statement comparison at the fund and function level of disbursements for the General Fund. Any budgetary modifications at the fund level may only be made by the Board of Education. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

The certificate of estimated resources may be amended during the year if the projected increases or decreases in receipt are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statement reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statement reflect the amounts on the amended certificate of estimated resources in effect at the time the final appropriations were passed by the Board.

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

(e) Cash and Investments

To improve cash management, cash received by the District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Interest in the pool is presented as "Cash and Cash Equivalents" on the financial statements. Investments of the District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Cash and Investments (Continued)

Investments are reported as assets. Accordingly, purchases of investments are not recorded as expenses, and sales of investments are not recorded as revenues. During the fiscal year, the District invested in an overnight repurchase agreement, money market funds, certificates of deposit, commercial paper, federal agency securities, and the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments are reported cost.

STAR Ohio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price which is the price the investment could be sold for on June 30, 2016.

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

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. These funds include the General Fund, Permanent Improvement Fund, Food Service, Public School Support, District Managed Student Activities and Auxiliary Services. In addition, interest earnings on Debt Service Fund investments are recorded entirely in the General Fund. Of the amount reported in the General Fund, approximately \$11,693 was assigned from other District funds.

(f) Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The District’s restricted assets consist of unclaimed funds.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Inventory and Prepaid Items

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

(h) Capital Assets and Depreciation

Acquisitions of property, plant and equipment are recorded as disbursements when paid. Capital assets are defined as assets with an initial, individual cost of more than \$5,000. These items are not reflected as assets in the accompanying financial statements. Depreciation has not been reported for any capital assets.

Useful lives for capital assets are as follows:

Land Improvements	10 - 30
Buildings and Improvements	20 - 50
Furniture, Fixtures and Equipment	5 - 20
Vehicles	5 - 10

(i) Accumulated Leave

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

(j) Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 11 and 12, the employer contributions include portions for pension benefits and for postretirement health care benefits.

(k) Long-Term Obligations

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

(l) Net Position

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes primarily includes resources restricted for unclaimed funds.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Net Position (Continued)

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net cash position is available. On the government-wide Statement of Net Position, none of the restricted net position is a result of enabling legislation.

(m) Fund Balances

In accordance with Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting, the District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories were used:

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria 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 policies of the District’s Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Fund Balances (Continued)

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

(n) Interfund Transactions

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. Interfund loans are reported as advances-in and advances-out. Advances are not reflected as assets and liabilities in the accompanying financial statements. Interfund transfers and advances are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the basic financial statements. Interfund activity between governmental funds is eliminated on the Statement of Net Position – Cash Basis and the Statement of Activities – Cash Basis.

NOTE 3 – COMPLIANCE

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

NOTE 4 – BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Cash Receipts, Disbursements and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major difference between the budget basis and cash basis is as follows:

1. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed, or assigned fund balance (cash basis).

A reconciliation of the cash and budgetary statements of the General Fund is as follows:

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 – BUDGETARY BASIS OF ACCOUNTING (Continued)

Change in Fund Balance - Cash Basis	\$	3,326,912
Public School Support Fund		2,646
Encumbrances		(396,696)
Change in Fund Balance- Budgetary Basis	\$	2,932,862

With the implementation of GASB Statement No. 54, *Fund Balance Reporting*, the District’s Public School Support Fund and Underground Storage Tank Fund, no longer meet the special revenue fund type criteria for reporting in the fiscal year-end external financial statements. As such, these funds are presented as part of the District’s General Fund in the year-end financial statements. The budgetary comparison information in the fiscal year-end financial statements is the legally adopted budget for the General Fund, without modification for the funds no longer meeting the special revenue criteria.

NOTE 5 – DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)

3. Written repurchase agreements in the securities listed above provided the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Commercial paper and bankers acceptance notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

Deposits

Custodial Credit Risk - In the case of deposits, this is the risk that, in the event of a bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

At fiscal year-end, the carrying amount of the District's deposits was \$1,481,187 and the bank balance was \$2,755,897. Of the District's bank balance, \$2,435,040 was covered by Federal Deposit Insurance Corporation (FDIC) and the remaining balance was exposed to custodial risk. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
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FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)

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

Investments

At fiscal year end, the District had the following investments:

Investment Type	Cost Value	Percent of Total	Maturities	
			Within 1 Year	Within 1-4 Years
STAR Ohio	\$ 2,620,176	17%	\$ 2,620,176	\$ -
Money Market Funds	76,525	0%	76,525	-
Commercial Paper	3,314,747	21%	3,314,747	
Certificate of Deposit	3,718,000	24%	1,240,000	2,478,000
Federal Agency Securities	5,949,575	38%	-	5,949,575
Total	\$ 15,679,023	100%	\$ 7,251,448	\$ 8,427,575

Interest Rate Risk - The District’s investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years. The Treasurer cannot make investments which he does not reasonably believe can be held until the maturity date.

Credit Risk – At fiscal year-end, the District’s investments in STAR Ohio and federal agency securities were rated AAAM and AA by Standard & Poor’s, respectively, and the District’s commercial paper was rated A. The District’s money market funds and certificates of deposit were not rated. The District has no investment policy that addresses credit risk.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the District’s investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment’s counterparty, not in the name of the District. Ohio law requires the fair value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The federal agency securities and commercial paper are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty’s trust department or agent, but not in the District’s name. The District has no investment policy dealing with investment custodial credit risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk - The District places no limit on the amount it may invest in any one issuer except for commercial paper. The Treasurer may not invest an amount that exceeds 10 percent of the outstanding commercial paper of the issuing entity. The District's investments in the categories of STAR Ohio, commercial paper, certificates of deposit, and federal agency securities exceeded 5 percent of the District's total investments.

NOTE 6 – PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenues received in calendar year 2016 represent collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed values listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State law 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 semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2016 represent 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 in 2016 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 6 – PROPERTY TAXES (Continued)

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

	<u>2015 Second Half Collections</u>		<u>2016 First Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential	\$ 491,933,336	84.30%	\$ 497,711,160	82.21%
Commercial/Industrial and Public Utility Real	73,729,420	12.63%	72,800,160	12.03%
Public Utility Personal	17,903,630	3.07%	34,874,130	5.76%
Total	<u>\$ 583,566,386</u>	<u>100.00%</u>	<u>\$ 605,385,450</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 38.10		\$ 37.90	

NOTE 7 – INCOME TAXES

The District levies a voted continuing tax of .75 percent for general operations on the income of residents and of estates. The tax went into effect on February 15, 1990 and is a continuing tax. 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 District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are credited to the General Fund.

NOTE 8 – TRANSFERS

The District makes all debt service payments from the Debt Service Fund. The Permanent Improvement Fund subsequently reimburses the Debt Service Fund for payments made on the Permanent Improvement Tax Anticipation Notes. During fiscal year 2016, the Permanent Improvement Fund reimbursed the Debt Service Fund \$788,494.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 9 – CAPITAL ASSETS

The District has elected to disclose capital assets, and the activity for the fiscal year follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Nondepreciable Capital Assets				
Land	\$ 3,962,164	\$ -	\$ -	\$ 3,962,164
Construction in Progress	1,584,424	-	-	1,584,424
Total Nondepreciable Assets	5,546,588	-	-	5,546,588
Depreciable Capital Assets				
Land Improvements	1,474,259	-	-	1,474,259
Buildings	32,464,440	-	-	32,464,440
Furniture and Equipment	4,625,051	13,490	-	4,638,541
Vehicles	3,493,686	236,439	(314,385)	3,415,740
Total Depreciable Assets	42,057,436	249,929	(314,385)	41,992,980
Less Accumulated Depreciation				
Land Improvements	(797,287)	(66,047)	-	(863,334)
Buildings	(12,977,910)	(708,881)	-	(13,686,791)
Furniture and Equipment	(4,137,678)	(104,901)	-	(4,242,579)
Vehicles	(2,618,976)	(216,829)	314,385	(2,521,420)
Total Accumulated Depreciation	(20,531,851)	(1,096,658)	314,385	(21,314,124)
Depreciable Capital Assets, Net of Accumulated Depreciation	21,525,585	(846,729)	-	20,678,856
Total Capital Assets, Net	\$ 27,072,173	\$ (846,729)	\$ -	\$ 26,225,444

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 – LONG TERM OBLIGATIONS

A summary of changes in long-term obligations for the fiscal year ended June 30, 2016 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>1999 School Improvement Bonds</u>					
4.00-5.75% maturing 12/1/2016	\$ 1,870,000	\$ -	\$ (870,000)	\$ 1,000,000	\$ 1,000,000
<u>Refunding Bonds Series 2003B</u>					
Capital Appreciation Bonds	897,064	56,330	(315,000)	638,394	323,428
<u>2005 Refunding Bonds</u>					
Current Interest Bonds (1.2-4.4%) maturing 12/1/2022	4,995,000	-	(4,995,000)	-	-
Capital Appreciation Bonds	1,220,228	76,900	(170,000)	1,127,128	87,068
<u>Refunding Bonds Series 2013A</u>					
Current Interest Bonds 2.0-3.0%) maturing 12/1/2022	2,254,999	-	(25,000)	2,229,999	25,000
<u>Refunding Bonds Series 2013B</u>					
Current Interest Bonds (2.0%) maturing 12/1/2018	524,999	-	(135,000)	389,999	135,000
<u>Refunding Bonds Series 2015</u>					
Current Interest Bonds 2.0-4.0%) maturing 12/1/2021	-	4,960,000	-	4,960,000	35,000
<u>Tax Anticipation Notes</u>					
Maturing 12/1/2019 (2.0-5.0%)	1,605,000	-	(300,000)	1,305,000	310,000
<u>Tax Anticipation Notes</u>					
Maturing 12/1/2021 (2.0-3.0%)	2,535,000	-	(340,000)	2,195,000	350,000
<u>Tax Anticipation Notes</u>					
Maturing 12/1/2025 (1.25-5.0%)		1,210,000	-	1,210,000	120,000
<u>Promisory Note</u>					
Maturing 10/5/2017 (3.25%)	67,689	-	(26,953)	40,736	30,361
Bonds and Notes Payable	<u>15,969,979</u>	<u>6,303,230</u>	<u>(7,176,953)</u>	<u>15,096,256</u>	<u>2,415,857</u>
<u>Refunding Bonds Series 2003B</u>					
Appreciation Bonds Premium	38,190	-	(21,460)	16,730	-
<u>2005 Refunding Bonds</u>					
Current Interest Bonds Premium	159,100	-	(21,213)	137,887	-
Appreciation Bonds Premium	34,618	-	(14,946)	19,672	-
<u>2015 Refunding Bonds</u>					
Current Interest Bonds Premium	-	251,711	(20,976)	230,735	-
<u>2016 Tax Anticipation Notes</u>					
Premium	-	68,162	(3,408)	64,754	-
Total Long Term Obligations	<u>16,201,887</u>	<u>6,623,103</u>	<u>(7,258,956)</u>	<u>15,566,034</u>	<u>2,415,857</u>

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 – LONG TERM OBLIGATIONS (Continued)

1999 School Improvement Bonds - On March 15, 1999, the District issued School Facilities Construction and Improvement Bonds for \$19,120,000, with a varying interest rate of 3.1 to 5.15 percent, for the purpose of constructing, renovating, furnishing, and equipping school buildings. On March 8, 2005 the District issued refunding bonds in the amount of \$11,164,987 to advance refund a portion of the outstanding 1999 school facilities construction bonds and take advantage of lower interest rates. As a result, \$11,165,000 of the 1999 school facilities construction and improvement bonds were considered defeased and removed from the District's liability. \$11,958,166 was deposited in an irrevocable trust to provide for all future debt service payments on the refunded portion of the 1999 bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$793,166. The defeased bonds in the amount of \$11,165,000 were retired. The remaining portion of bonds have a final maturity during fiscal year 2017.

Refunding Bonds, Series 2003B - On April 1, 1995, the District issued School Improvement Bonds for \$6,638,000, with a varying interest rate of 4.3 to 5.75 percent, for the purpose of constructing, renovating, furnishing, and equipping school buildings. The bond was issued for a twenty-eight year period with final maturity during fiscal year 2023. On December 9, 2003, the District advance refunded the 1995 bonds issuance and issued \$5,559,988 in bonds with varying interest rate of 1.2 to 4.4 percent. Of the December 9, 2003 proceeds, \$5,090,000 was serial bonds and \$469,988 was capital appreciation bonds. The bonds were sold at a premium of \$9,258 and \$602,380, respectively, with associated issuance costs of \$82,299. On December 9, 2003, \$6,075,810 was placed into an irrevocable trust to provide for all future debt service payments on the refunded 1995 school improvement bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$515,810. On December 1, 2005 the bonds were called and the refunded 1995 school improvement bonds were paid off and the escrow account was closed. As of June 30, 2016, accumulated accretion on the capital appreciation bonds is \$488,520. The debt is being repaid by tax receipts through the bond retirement Debt Service Fund. The current interest bonds were refunded with the 2013A series refunding bonds.

2005 Refunding Bonds - On March 8, 2005 the District issued refunding bonds in the amount of \$11,164,987 to advance refund a portion of the outstanding 1999 school facilities construction bonds and take advantage of lower interest rates. The \$11,164,987 in refunding bonds consisted of serial, term, and capital appreciation bonds in the amounts of \$3,955,000, \$4,995,000, and \$2,214,987, respectively. The debt is being repaid by tax receipts through the bond retirement Debt Service Fund. The refunding bonds were sold at a premium in the amount of \$967,645 and bond issuance costs were \$174,466. The capital appreciation bonds of \$2,214,987 will mature at \$4,055,000 ranging from the fiscal years of 2012 to 2018. As of June 30, 2016, accumulated accretion on the capital appreciation bonds is \$589,558. The current interest bonds were refunded by the 2015 series refunding bonds.

Refunding Bonds, Series 2013A - On October 10 2013, the District current refunded the 2003A and 2003B bonds issuance and issued \$2,294,999 in bonds with varying interest rate of 2.0-3.0 percent. The bonds were sold at a premium of \$105,544 with associated issuance costs of \$56,492. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$256,703. The debt is being repaid by tax receipts through the bond retirement Debt Service Fund.

Refunding Bonds, Series 2013B - On October 10 2013, the District current refunded the 2003A and 2003B bonds issuance and issued \$659,999 in bonds with an interest rate of 2.0 percent. The bonds were sold at a premium of \$32,757 with associated issuance costs of \$19,912.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 – LONG TERM OBLIGATIONS (Continued)

The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$30,738. The debt is being repaid by tax receipts through the bond retirement Debt Service Fund.

Refunding Bonds, Series 2015 - On September 9, 2015, the District current refunded the 2005 bond issuance and issued \$4,960,000 in bonds with an interest rate of 2.0-4.0 percent. The bonds were sold at a premium of \$251,711 with associated issuance costs of \$64,360. The current refunding resulted in a cash flow savings value of \$680,139 with a net present value of \$639,494. The debt is being repaid by tax receipts through the bond retirement Debt Service Fund.

Tax Anticipation Notes - In fiscal year 2010, the District issued Tax Anticipation Notes in anticipation of the collection of the proceeds of a two and eight tenths (2.80) mill permanent improvement levy approved by the electors of the District at the election held May 5, 2009. The note matures December 1, 2019 with gradually increasing principal payments. Interest is paid semiannually on June 1 and December 1 of each year, which began on December 1, 2009. The debt is being repaid through the bond retirement Debt Service Fund, and reimbursed by tax receipts received in the Permanent Improvement Fund.

In fiscal year 2012, the District issued an additional \$3,535,000 in Tax Anticipation Notes in anticipation of the collection of the proceeds of a two and eight tenths (2.80) mill permanent improvement levy approved by the electors of the District at the election held May 5, 2009. The note matures December 1, 2021 with gradually increasing principal payments. Interest is paid semiannually on June 1 and December 1 of each year, which began on June 1, 2012. The debt is being repaid through the bond retirement Debt Service Fund, and reimbursed by tax receipts received in the Permanent Improvement Fund.

In fiscal year 2016, the District issued an additional \$1,210,000 in Tax Anticipation Note in anticipation of the collection of the proceeds of a two and eight tenths (2.80) mill permanent improvement levy approved by the electors of the District at the election held May 5, 2009. The note matures December 1, 2025 with gradually increasing principal payments. Interest is paid semiannually on June 1 and December 1 of each year, which began on June 1, 2016. The debt is being repaid through the bond retirement Debt Service Fund, and reimbursed by tax receipts received in the Permanent Improvement Fund.

Promissory Notes - In fiscal year 2013, the District borrowed \$143,967 with an annual interest rate of 3.25 percent from The Vinton County National Bank for the purpose of purchasing copiers. The loan is divided into 60 monthly payments in the amount of \$2,603 due the fifth of every month with the final payment due on October 5, 2017. The debt is being repaid by tax receipts through the bond retirement Debt Service Fund.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 10 – LONG TERM OBLIGATIONS (Continued)

Debt service requirements to maturity on the bonds and notes are as follows:

Fiscal Year	Principal	Interest	Total
2017	2,415,857	337,051	2,752,908
2018	2,355,401	422,456	2,777,857
2019	2,389,998	408,454	2,798,452
2020	2,465,000	200,426	2,665,426
2021	2,175,000	148,071	2,323,071
2022-2026	3,295,000	161,977	3,456,977
Total	<u>\$ 15,096,256</u>	<u>\$ 1,678,435</u>	<u>\$ 16,774,691</u>

The Ohio Revised Code provides that the net debt of a school district, whether or not approved by the people, shall not exceed 9.0% of the total value of all property in the school district as listed and assessed for taxation. In addition, the unvoted net debt of a school district cannot exceed 0.1% of the total assessed value of property. The effects of these debt limitations at fiscal year-end are a voted debt margin of \$44,139,171 and an unvoted debt margin of \$605,385. The aggregate amount of the District’s unvoted debt is also subject to overlapping debt restrictions with various governmental entities. As of June 30, 2016, these entities have complied with the requirements that debt service payments on unvoted overlapping debt must not exceed in the aggregate 1% (10 mills) of the assessed property value.

NOTE 11 – DEFINED BENEFIT PENSION PLAN

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

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

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

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.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare Part B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare Part B was 14.00 percent and nothing was allocated to the Heath Care Fund.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

The District paid \$874,836 to SERS during fiscal year 2016.

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

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. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. 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 District paid \$2,302,788 to STRS during fiscal year 2016.

Net Pension Liability

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

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	\$ 8,991,810	\$ 40,333,210	\$ 49,325,020
Proportion of the Net Pension Liability	0.1575825%	0.14593878%	

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.

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NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

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 a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

	1% Decrease	Current	1% Increase
	(6.75%)	Discount Rate (7.75%)	(8.75%)
District's proportionate share of the net pension liability	\$ 12,468,410	\$ 8,991,810	\$ 6,064,227

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:

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NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class.

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real 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>	

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.

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NOTE 11 – DEFINED BENEFIT PENSION PLAN (Continued)

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 56,025,871	\$ 40,333,210	\$ 22,153,194

NOTE 12 – POSTEMPLOYMENT BENEFITS

(a) School Employees Retirement System

Postemployment Benefits – In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers a postemployment benefit plan.

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

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. For the year ended June 30, 2016, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the minimum compensation level was established at \$23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District's payments to health care, including the surcharge, for the years ended June 30, 2016, 2015, and 2014 were \$83,240, \$122,141, and \$85,822, respectively, 100 percent has been contributed for fiscal years 2016, 2015 and 2014.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 12 – POSTEMPLOYMENT BENEFITS (Continued)

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

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

(b) State Teachers Retirement System

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

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

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

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

Funding Policy – Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2014 and 2013. Effective July 1, 2014, 0% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate established under Ohio law.

The District's required contributions for health care for the years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$148,505, respectively. The entire amount has been contributed for each fiscal year.

NOTE 13 – RISK MANAGEMENT

The 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 the fiscal year, the District purchased insurance coverage from Liberty Mutual. Coverage provided by Liberty Mutual is as follows:

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NOTE 13 – RISK MANAGEMENT (Continued)

Property Coverage

Building and Business Personal Property - Replacement Cost	\$79,489,350
Equipment Breakdown	Included

General Liability Coverage

Bodily Injury and Property Damage Limit (each offense)	\$1,000,000
Personal and Advertising Injury Limit (each offense)	\$1,000,000
General Aggregate Limit	\$2,000,000
Products-Completed Operations Aggregate Limit	\$2,000,000

Auto Coverage (per accident or “loss”)

Liability	\$1,000,000
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Umbrella/Liability Coverage

Each Occurrence Limit	\$3,000,000
Aggregate Limit	\$3,000,000

Employer’s Liability – Stop Gap Coverage

Bodily Injury By Accident – Each Accident	\$1,000,000
Bodily Injury By Disease – Each Employee	\$1,000,000
Aggregate Limit	\$2,000,000

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 from the prior fiscal year.

NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS

A. Licking Area Computer Association

The District is a participant in the Licking Area Computer Association (LACA). LACA is an association which services 30 entities within the boundaries of Licking, Perry, Fairfield, Knox, Medina, and Muskingum Counties. These entities consist of public school districts, private schools, and educational service centers. 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 member school districts. The governing board of LACA consists of the superintendents from all participating districts. The continued existence of LACA is not dependent on the District’s continued participation and no equity interest exists. The LACA constitution states that any school district withdrawing from the Association prior to dissolution forfeits their claim to the Association’s capital assets. The District’s total payments to LACA for fiscal year 2016 were \$166,613. Financial statements for LACA can be obtained from their fiscal agent, the Career and Technology Education Center of Licking County, 150 Price Road, Newark, OH 43055.

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NOTE 14 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. META Solutions (formerly Tri-Rivers Educational Computer Association (TRECA))

The District participates in the Metropolitan Educational Technology Association (META), a jointly governed organization created as a regional council of governments pursuant to Chapter 167 of the Ohio Revised Code. META operates as, and has all the powers of, a data acquisition site/information technology center pursuant to applicable provisions of the Ohio Revised Code. The organization was formed for the purpose of identifying, developing, and providing to members and non-members innovative educational and technological services and products, as well as expanded opportunities for cooperative purchasing. The General Assembly of META consists of one delegate from every member school district. The delegate is the superintendent of school district or the superintendent's designee. The degree of control exercised by any participating school district is limited to its representation on the General Assembly. The General Assembly exercises total control over the operation of META including budgeting, appropriating, contracting, and designating management. Each year, the participating school district's pay a membership fee to META to cover the costs of administering the program. The District's total payments to META for fiscal year 2016 were \$815. Financial information can be obtained by META's CFO, 100 Executive Drive, Marion, Ohio 43302.

C. School Study Council of Ohio

The School Study Council of Ohio (Council) is a jointly governed organization operated by a Board of Trustees (Board) that is comprised of numerous Ohio school districts. The purpose of the Council is to bring about the improvement of education in member school organizations. Participating school districts have active membership by paying a yearly membership fee which entitles each school district to attend Council meetings and voting privileges. Participating school districts may elect to be associate members, which entitles them to attend meetings and participate in Council discussions but not to vote. The Board is annually elected from within the Council's active membership. In fiscal year 2016, the Board consisted of twenty-one members. In fiscal year 2016, the District made no payments to the Council.

NOTE 15 – RELATED ORGANIZATION

Pataskala Public Library - The Pataskala Public Library is statutorily created as a separate and distinct political subdivision. Seven trustees of the District Library are appointed by the District. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the District for operational subsidies. Due process is required to remove Board members. No subsidies are provided by the District.

NOTE 16 – RELATED PARTY TRANSACTIONS

The District appoints all of the five Board members of its presented component unit, the Southwest Licking Digital Academy (SLDA). Per the District's contract with SLDA, SLDA pays the District, from funding provided by the Ohio Department of Education pursuant to Ohio Rev. Code Section 3314.08, \$1,400 per student per fiscal year. In addition, the District provides special education and related services required by an IEP, as well as administrative and fiscal services, to SLDA. The District only collected fees for mutually agreed upon services. All other required fees were waived for fiscal year 2016. For services provided in fiscal year 2016, the District will receive \$111,624 from SLDA.

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NOTE 17 – SET ASIDES

The District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by 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 years. The following cash basis information describes the change in the fiscal year-end set-aside amounts for the Capital Acquisition Reserves:

Set-aside cash balance as of June 30, 2015	\$	-
Current fiscal year set-aside requirement		686,685
Current Year Offsets		<u>(1,672,717)</u>
Total	\$	<u><u>(986,032)</u></u>
Balance Carried Forward to Fiscal Year 2017	\$	<u><u>-</u></u>

NOTE 18 – CONTINGENCIES

- (a) Grants** - The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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.
- (b) Litigation** - The District is not party to any litigation that, in the opinion of management, would have a material effect on the financial statements.
- (c) School District Foundation** - Funding is based on the annualized full-time equivalent (FTE) enrollment of each student. 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 District.

NOTE 19 – ENCUMBRANCES

The District encumbers funds with purchase orders to assign funds for those purchases of goods and services. Encumbrances as of fiscal year end in the General Fund, Permanent Improvement Fund and Other Governmental Funds were \$396,696, \$975,086 and \$3,906, respectively.

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NOTE 20 – COMPONENT UNIT DISCLOSURES

(a) Description of the School

The Southwest Licking Digital Academy (the Academy) is a nonprofit corporation established pursuant to Ohio Rev. Code Chapters 3314 and 1702. The Academy is an approved tax-exempt organization under Section 501(c) (3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the Academy's tax exempt status. The Academy's mission is to enhance and facilitate student learning by providing state of the art digital curriculum and instruction; innovative, collaborative leadership; and technical expertise and support that will prepare students to become lifelong learners and intelligent decision makers. The students may include, but will not be limited to, home schooled children, children with special physical and mental needs, students removed from the regular classroom for discipline concerns, students who need an alternative to the traditional classroom for various reasons, including religious reasons, and transient students within the Southwest Licking Local School District, the sponsor school district, that desire a specific course not currently offered that is available through online instruction.

The Academy was formally created on January 9, 2003, by entering a sponsorship contract with the Southwest Licking Local School District (the Sponsor). The Sponsor is responsible for evaluating the performance of the Academy and has the authority to deny renewal of the contract at its expiration. The Treasurer for the Academy is also the Treasurer for the Southwest Licking Local School District. See Note 20 (f) for additional information regarding the sponsorship agreement with the Sponsor.

The Academy purchased the services of Virtual Community School (VCS) to provide educational services during the fiscal year. See Note 20 (g) for information regarding the contract between the Academy and VCS.

The Academy operates under the direction of a five-member Board of Directors appointed by the Sponsor. The majority of those appointed by the Sponsor shall be elected or appointed public officials or public employees, or shall be community leaders who have demonstrated a professional interest in education or in other issues involving children. The remaining members of the Board shall be persons who are parents of students who are expected to attend the community school.

The Academy is a component unit of the Sponsor. The Sponsor appoints a majority of the Board of Directors and is able to impose its will on the Academy. The Sponsor can suspend the Academy's operations for any of the following reasons: 1) The Academy's failure to meet student performance requirements stated in its contract with the Sponsor, 2) The Academy's failure to meet generally accepted standards of fiscal management, 3) the Academy's violation of any provisions of the contract with the Sponsor or applicable state or federal law, or 4) Other good cause.

The Board of Directors is responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of the Academy and the children it serves. The Academy also used the facilities of the Sponsor.

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NOTE 20 – COMPONENT UNIT DISCLOSURES (Continued)

(b) Summary of Significant Accounting Policies

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

Basis of Presentation

The Academy's basic financial statements consist of a Statement of Net Position – Cash Basis; and a Statement of Receipts, Disbursements, and Changes in Net Position – Cash Basis. These statements are prepared on the cash basis of accounting as further described below.

The Academy uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net position, and financial position.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Academy'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.

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

Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Rev. Code Chapter 5705, unless specifically provided by the Academy's contract with its Sponsor. The contract between the Academy and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

Cash and Cash Equivalents

The Academy had no investments during the fiscal year.

For purposes of the presentation on the Statement of Net Position – Cash Basis, investments with maturities of three months or less at the time they are purchased by the Academy are considered to be cash equivalents. Investments with maturities greater than three months at the time they are purchased are reported as investments.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 20 – COMPONENT UNIT DISCLOSURES (Continued)

(b) Summary of Significant Accounting Policies (Continued)

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws or other governments or imposed by enabling legislation. The Academy had no restricted assets for the year ended June 30, 2016.

Prepaid Items

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

Inventory

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

Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements. Depreciation has not been reported for any capital assets.

Accrued Liabilities and Long-Term Obligations

The Academy's cash basis financial statements do not report liabilities for accrued liabilities and long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid.

Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The Academy had no restricted net position for the year ended June 30, 2016.

The Academy's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net position are available.

Operating Revenues and Expenses

Operating receipts are those revenues that are generated directly from the primary activity of the Academy. Operating disbursements are necessary costs incurred to provide the goods or services that are the primary activities of the Academy. All receipts and disbursements not meeting this definition are reported as non-operating.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 20 – COMPONENT UNIT DISCLOSURES (Continued)

(c) Compliance

Ohio Administrative Code, Section 117-2-03 (B), requires the Academy to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Academy prepared its financial statements on the 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 assets and deferred outflows, liabilities and deferred inflows, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The Academy can be fined and various other administrative remedies may be taken against the Academy.

(d) Deposits

At fiscal year-end the carrying amount of the Academy's deposits was \$25,000, and the bank balance was \$131,066. The entire bank balance was covered by federal depository insurance.

(e) Risk Management

The Academy 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 the fiscal year, the Academy was listed as an additional insurance organization on the District's insurance coverage from Liberty Mutual. The types and amounts of coverage provided by Liberty Mutual are as follows:

General Liability Coverage - \$2,000,000
Employee Benefits Liability - \$3,000,000
Errors and Omissions Injury - \$1,000,000

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 from the prior fiscal year.

(f) Fiscal Agent and Payment to Sponsor

The Community School Sponsorship Contract between the Academy and the Southwest Licking Local School District requires the Academy to pay the following amounts:

- The Academy was required to pay to the Sponsor \$25,000 for planning, design, and initial implementation services acquired by the Sponsor on behalf of the Academy from TRECA. This fee was paid during fiscal year 2004.
- The Academy is required to make annual payments to the Sponsor of \$1,400 per student per year.
- The Academy may also pay the Sponsor other amounts as are mutually agreed for any services provided to the Academy by the Sponsor.
- The Academy was required to pay to the Sponsor three percent of the payments for operating expenses that Academy received from the State.
- The Academy was required to pay to the Sponsor \$6,000 for the Sponsor's provision and maintenance of the Academy Facilities.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 20 – COMPONENT UNIT DISCLOSURES (Continued)

(f) Fiscal Agent and Payment to Sponsor (Continued)

During the year ended June 30, 2016, the Academy paid the Sponsor \$111,624 for the services defined above. This amount is included on the Purchased Services line on the financial statements.

(g) Contract with the Virtual Community School

The Academy entered into a one year contract with the Virtual Community School (VCS) to provide educational services for fiscal year 2016. Under the contract, the following terms were agreed upon:

- VCS will provide the Academy’s full time students access to classes totaling seven (7) academic credits per school year.
- VCS will provide highly qualified teachers and/or adjunct teachers to deliver the educational services to all the Academy’s full time students.
- VCS Ohio will offer the Academy’s full time students with a computer, printer, and scanner.
- VCS will provide help desk support and technical support for equipment and course issues.
- VCS will provide training to the Academy’s staff twice per year.
- VCS will provide marketing material and marketing support to the Academy.
- VCS will provide a microsite to the Academy. The microsite will include a personalized banner.
- The Academy shall pay to VCS \$2,650 per full-time student, which will entitle the student to classes totaling seven academic credits, computer, scanner, and printer.

During the fiscal year, the Academy paid VCS approximately \$132,800 for these services. This amount is included on the Purchased Services line on the financial statements. To obtain Virtual Community School’s audited June 30, 2016 financial statements, contact Mr. Shane Allen, Treasurer, Virtual Community School of Ohio, 4480 Refugee Road, Columbus, Ohio 43232.

(h) Contingencies

Grants

The Academy received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability for the Academy.

Full Time Equivalency Reviews

As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 and June 30, 2016 Foundation funding for the Academy; 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 Academy.

Litigation

The Academy is not party to any litigation that, in the opinion of management, would have a material effect on the financial statements.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 20 – COMPONENT UNIT DISCLOSURES (Continued)

(i) Jointly Governed Organizations

Licking Area Computer Association

The Academy is a participant in the Licking Area Computer Association (LACA). LACA is an association which services 30 entities within the boundaries of Licking, Perry, Fairfield, Knox, Medina, and Muskingum Counties. These entities consist of public school districts, private schools, and educational service centers. 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 member school districts. The governing board of LACA consists of the superintendents from all participating districts. The continued existence of LACA is not dependent on the Academy's continued participation and no equity interest exists. The LACA constitution states that any school district withdrawing from the Association prior to dissolution forfeits their claim to the Association's capital assets. The Academy's total payments to LACA for fiscal year 2016 were \$502. Financial statements for LACA can be obtained from their fiscal agent, the Career and Technology Education Center of Licking County, 150 Price Road, Newark, OH 43055.

(j) Subsequent Events

On August 18th, 2016, the District's Board of Education voted to close The Academy effective immediately due to the lack of enrollment.

NOTE 21 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2016, the District has implemented the following:

GASB Statement No. 72 "Fair Value Measurement and Application" enhances comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also enhances fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The implementation of this statement did not have an effect on the financial statements of the District.

GASB Statement No. 76 "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" improves financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in non-authoritative literature. The implementation of this statement did not have an effect on the financial statements of the District.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Pass-Through Entity Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
Nutrition Cluster			
School Breakfast Program	10.553	N/A	\$ 189,135
National School Lunch Program (Non-Cash Assistance)	10.555	N/A	70,295
National School Lunch Program	10.555	N/A	455,432
Total Nutrition Cluster			<u>714,862</u>
Total U.S. Department of Agriculture			<u>714,862</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
Title I			
Title I Grants to Local Educational Agencies	84.010	N/A	108,344
Title I Grants to Local Educational Agencies	84.010	N/A	393,993
Total Title I			<u>502,337</u>
IDEA-B			
Special Education_Grants to States	84.027	N/A	107,230
Special Education_Grants to States	84.027	N/A	588,599
Total IDEA-B			<u>695,829</u>
Title II-A			
Improving Teacher Quality State Grants	84.367	N/A	11,088
Improving Teacher Quality State Grants	84.367	N/A	60,961
Total Title II-A			<u>72,049</u>
Total U.S. Department of Education			<u>1,270,215</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,985,077</u></u>

The accompanying notes are an integral part of this schedule.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE 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 Southwest Licking Local School District’s (the District’s) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D – FOOD DONATION PROGRAM

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

The Co-op used by the District is administered by HPS and is part of the EPC/MEC buying group.

NOTE E - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE’s consent, schools can transfer unobligated amounts to the subsequent fiscal year’s program. The District transferred the following amounts from 2015 to 2016 programs:

Program Title	CFDA Number	Amount Transferred
Title I Grants to Local Educational Agencies	84.010	\$ 37,689
Special Education Grants to States	84.027	\$ 25,655
Improving Teacher Quality State Grants	84.367	\$ 2,277



Dave Yost • Auditor of State

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

Southwest Licking Local School District
Licking County
927-A South Street
Pataskala, Ohio 43062

To the Board of Education:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Southwest Licking Local School District, Licking County, Ohio (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 8, 2017, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

March 8, 2017



Dave Yost • Auditor of State

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

Southwest Licking Local School District
Licking County
927-A South Street
Pataskala, Ohio 43062

To the Board of Education:

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Special Education Grants to States

As described in finding 2016-002 in the accompanying schedule of findings, the District did not comply with requirements regarding Allowable Costs/Cost Principles applicable to its CFDA # 84.027 Special Education Grants to States major federal program. Compliance with this requirement is necessary, in our opinion, for the District to comply with requirements applicable to this program.

Qualified Opinion on Special Education Grants to States

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Special Education Grants to States* paragraph, the Southwest Licking Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect its *Special Education Grants to States* for the year ended June 30, 2016.

Unmodified Opinion on the Other Major Federal Program

In our opinion, Southwest Licking Local School District complied in all material respects with the requirements referred to above that could directly and materially affect its other major federal program identified in the *Summary of Auditor's Results* section of the accompanying schedule of findings for the year ended June 30, 2016.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness, described in the accompanying schedule of findings as item 2016-002.

Southwest Licking Local School District
Licking County
Independent Auditor's Report on Compliance
with Requirements Applicable to Each Major
Federal Program and on Internal Control over
Compliance Required by the Uniform Guidance
Page 3

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

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

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

March 8, 2017

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**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

<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?	Yes
<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	Qualified - Special Education Grants to States Unmodified – Title I Grants to Local Educational Agencies
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Grants to States CFDA #84.027 Title I Grants to Local Educational Agencies CFDA #84.010
<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 CFR §200.520?	No

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

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

FINDING NUMBER 2016-001

Annual Financial Report – Noncompliance

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

Ohio Admin. Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the District prepared its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This presentation differs from accounting principles generally accepted in the United States of America (GAAP).

The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows, fund equities, and disclosures that, while presumably material, cannot be reasonably determined at this time. Failure to prepare proper GAAP financial statements may result in the District being fined or other administrative remedies.

We recommend the District prepare its financial statements in accordance with GAAP.

Officials' Response

See corrective action plan for client responses.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

FINDING NUMBER 2016-002

Finding Number	2016-002		
CFDA Title and Number	Special Education Grants to States #84.027		
Federal Award Year	2016		
Federal Agency	U.S. Department of Education		
Pass-Through Entity	Ohio Department of Education		
Repeat Finding from Prior Audit?	No	Finding Number (if repeat)	Not applicable.

Time and Effort Certifications – Noncompliance / Material Weakness

Under the authority of **2 CFR § 3474.1** and except as otherwise provided by this section, the Department of Education adopted the Office of Management and Budget (OMB) Guidance in **2 CFR part 200**. Thus, this part gives regulatory effect to the OMB guidance and supplements the guidance as needed for the Department. **2 C.F.R. § 200.430(i)(1)(i-v)** provides that charges to Federal Awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- Be incorporated into the official records of the School District;
- Reasonably reflect the total activity for which the employee is compensated by the School District, not exceeding 100% of compensated activities
- Encompass both federally assisted and all other activities compensated by the School District on an integrated basis, but may include the use of subsidiary records as defined in the School District's written policy
- Comply with the established accounting policies and practices of the School District

The District did not complete the semi-annual personnel activity reports for time spent on federal grants for ten Special Education employees for the period of January 01, 2016 through June 30, 2016 in the amount of \$160,708. However, alternative measures were performed to determine the allowability of these expenditures.

Failure to properly complete semi-annual personnel activity reports could result in unallowable costs and misuse of federal funds.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

FINDING NUMBER 2016-002 (Continued)

We recommend the District complete and maintain the semi-annual personnel activity reports that reflect the distribution of the actual activity of each Special Education employee, account for the total activity for which each employee is compensated, and contain a certification signature of the grant coordinator and employee.

Officials' Response

See corrective action plan for client responses.

**SOUTHWEST LICKING LOCAL SCHOOL
LICKING COUNTY**

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

Finding Number	Finding Summary	Status	Additional Information
2014-001 2015-001	Noncompliance for ORC 117.38 for not filing on GAAP basis Finding first occurred in fiscal year 2004 at finding 2004-SWLSD-001.	Not corrected	The District elects to report on a cash basis rather than GAAP. The finding was re-issued as 2016-001. See the corrective action plan for further details.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING 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	None. The Southwest Licking LSD has no plans to convert to GAAP financial statements due to cost of the GAAP conversion and audit. The School District does prepare GAAP Look Alike financial statements.	N/A	Richard D. Jones, Treasurer
2016-002	The Southwest Licking LSD (School District) will review the audit findings and the procedures with the applicable federal program coordinator and recommend a tickler file be created to remind them to obtain the required certifications.	May 31, 2017	Kasey Perkins, Title I and Paula Brunton, Title VI-B



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SOUTHWEST LICKING LOCAL SCHOOL DISTRICT

LICKING 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
APRIL 11, 2017**