



Dave Yost • Auditor of State

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY
FOR THE FISCAL YEARS ENDING JUNE 30, 2017 AND 2016**

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HANCOCK COUNTY
FOR THE FISCAL YEARS ENDING JUNE 30, 2017 AND 2016**

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HANCOCK COUNTY
FOR THE FISCAL YEARS ENDING JUNE 30, 2017 AND 2016**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Arcadia Local School District
Hancock County
19033 State Route 12
Arcadia, Ohio 44804-9714

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Arcadia Local School District, Hancock County, Ohio (the District), as of and for the years ended June 30, 2017 and 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 accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining

fund information of Arcadia Local School District, Hancock County, Ohio, as of June 30, 2017 and 2016, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

May 31, 2018

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

The discussion and analysis of Arcadia Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Highlights for fiscal year 2017 are as follows:

In total, net position increased \$510,910, an increase of more than 3 times the prior year amount.

General revenues accounted for 74 percent of total revenues and reflect the School District's significant dependence on property taxes, income taxes, and unrestricted state entitlements.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Arcadia Local School District as a financial whole, or as an entire operating entity.

The statement of net position and the statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds, with all other nonmajor funds presented in total in a single column. For Arcadia Local School District, the General Fund is the only significant fund.

Reporting the School District as a Whole

The statement of net position and the statement of activities reflect how the School District did financially during fiscal year 2017. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the School District's net position and changes in net position. This change in net position is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

In the statement of net position and the statement of activities, all of the School District's activities are presented as governmental activities and include instruction, support services, non-instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's only major fund is the General Fund.

Governmental Funds - All of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

The School District as a Whole

Table 1 provides a summary of the School District's net position for fiscal year 2017 and fiscal year 2016.

Table 1
Net Position

| | <u>Governmental Activities</u> | | <u>Change</u> |
|---------------------------------------|--------------------------------|-------------------|--------------------|
| | <u>2017</u> | <u>2016</u> | |
| <u>Assets</u> | | | |
| Current and Other Assets | \$9,928,701 | \$8,773,647 | \$1,155,054 |
| Capital Assets, Net | 1,923,686 | 1,923,398 | 288 |
| Total Assets | <u>11,852,387</u> | <u>10,697,045</u> | <u>1,155,342</u> |
| <u>Deferred Outflows of Resources</u> | | | |
| Pension | <u>1,956,562</u> | <u>861,666</u> | <u>1,094,896</u> |
| <u>Liabilities</u> | | | |
| Current and Other Liabilities | 694,556 | 671,943 | (22,613) |
| Long-Term Liabilities | | | |
| Pension | 9,806,092 | 7,854,045 | (1,952,047) |
| Other Amounts | 328,731 | 350,909 | 22,178 |
| Total Liabilities | <u>10,829,379</u> | <u>8,876,897</u> | <u>(1,952,482)</u> |

(continued)

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Table 1
Net Position
(continued)

| | Governmental Activities | | Change |
|--------------------------------------|-------------------------|-------------|-----------|
| | 2017 | 2016 | |
| <u>Deferred Inflows of Resources</u> | | | |
| Pension | \$34,959 | \$554,911 | \$519,952 |
| Other Amounts | 2,602,944 | 2,296,146 | (306,798) |
| Total Deferred Inflows of Resources | 2,637,903 | 2,851,057 | 213,154 |
| <u>Net Position</u> | | | |
| Net Investment in Capital Assets | 1,923,686 | 1,923,398 | 288 |
| Restricted | 206,568 | 163,839 | 42,729 |
| Unrestricted (Deficit) | (1,788,587) | (2,256,480) | 467,893 |
| Total Net Position (Deficit) | \$341,667 | (\$169,243) | \$510,910 |

The net pension liability reported by the School District at June 30, 2017, is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions". For reasons discussed below, end users of these financial statements will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

GASB standards are national standards and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and State law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB Statement No. 68 requires the net pension liability to equal the School District's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange", that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or in the case of compensated absences (i.e. vacation and sick leave) are satisfied through paid time off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability but are outside the control of the School District. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB Statement No. 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred outflows/inflows.

Pension related changes noted in the above table reflect a significant increase in deferred outflows and decrease in deferred inflows related to changes in projected and actual earnings on investments related to the net pension liability. The increase in the net pension liability represents the School District's proportionate share of the unfunded benefits. As indicated previously, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability.

Total net position increased significantly from the prior fiscal year. There was a substantial increase in current and other assets (approximately \$836,000 in cash and cash equivalents and \$288,000 in property taxes receivable). The increase in cash and cash equivalents is due to an increase in tuition as well the simple fact that revenues collected were in excess of operating costs allowing for more cash on hand at fiscal year end. Property taxes are based on the assessed valuation of property and there was an increase in the valuation of public utility property of almost \$14 million. The effect of these changes is also reflected in the increase in unrestricted net position.

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Table 2 reflects the change in net position for fiscal year 2017 and fiscal year 2016.

Table 2
Change in Net Position

| | Governmental Activities | | Change |
|--|-------------------------|--------------------|------------------|
| | 2017 | 2016 | |
| <u>Revenues</u> | | | |
| Program Revenues | | | |
| Charges for Services | \$1,510,870 | \$1,388,879 | \$121,991 |
| Operating Grants, Contributions, and Interest | 579,437 | 597,377 | (17,940) |
| Total Program Revenues | <u>2,090,307</u> | <u>1,986,256</u> | <u>104,051</u> |
| General Revenues | | | |
| Property Taxes Levied for General Purposes | 2,804,296 | 2,549,849 | 254,447 |
| Income Taxes Levied for General Purposes | 872,069 | 844,950 | 27,119 |
| Grants and Entitlements not Restricted to Specific Programs | 2,325,226 | 2,262,335 | 62,891 |
| Interest | 35,444 | 16,130 | 19,314 |
| Gifts and Donations | 21,898 | 23,697 | (1,799) |
| Miscellaneous | 32,584 | 21,119 | 11,465 |
| Total General Revenues | <u>6,091,517</u> | <u>5,718,080</u> | <u>373,437</u> |
| Total Revenues | <u>8,181,824</u> | <u>7,704,336</u> | <u>477,488</u> |
| <u>Expenses</u> | | | |
| Instruction: | | | |
| Regular | 3,366,152 | 2,957,991 | (408,161) |
| Special | 668,895 | 523,382 | (145,513) |
| Vocational | 310,532 | 264,313 | (46,219) |
| Support Services: | | | |
| Pupils | 397,498 | 265,893 | (131,605) |
| Instructional Staff | 209,904 | 272,762 | 62,858 |
| Board of Education | 31,318 | 28,233 | (3,085) |
| Administration | 622,955 | 560,989 | (61,966) |
| Fiscal | 268,695 | 273,364 | 4,669 |
| Operation and Maintenance of Plant | 664,003 | 625,934 | (38,069) |
| Pupil Transportation | 425,969 | 352,702 | (73,267) |
| Central | 4,986 | 4,233 | (753) |
| Non-Instructional Services | 340,135 | 326,460 | (13,675) |
| Extracurricular Activities | 359,872 | 296,321 | (63,551) |
| Total Expenses | <u>7,670,914</u> | <u>6,752,577</u> | <u>(918,337)</u> |
| Increase in Net Position | 510,910 | 951,759 | (440,849) |
| Net Position (Deficit) at Beginning of Year | (169,243) | (1,121,002) | 951,759 |
| Net Position (Deficit) at End of Year | <u>\$341,667</u> | <u>(\$169,243)</u> | <u>\$510,910</u> |

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Total revenues increased approximately 6 percent from the prior fiscal year. The increase in program revenues was primarily due to tuition. The most significant increase in general revenues was due to an increase in property tax revenue (increase in assessed valuation of property as mentioned previously). There was also an increase in State foundation resources.

Total expenses increased almost 14 percent. This increase can be attributed to salary and benefit increases as well as the effect of the increase in the net pension liability.

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

Table 3
Governmental Activities

| | Total Cost of Services | | Net Cost of Services | |
|---------------------------------------|---------------------------|--------------------|-------------------------|--------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Instruction: | | | | |
| Regular | \$3,366,152 | \$2,957,991 | \$2,141,882 | \$1,771,062 |
| Special | 668,895 | 523,382 | 446,033 | 309,448 |
| Vocational | 310,532 | 264,313 | 273,588 | 237,302 |
| Support Services: | | | | |
| Pupils | 397,498 | 265,893 | 279,755 | 153,446 |
| Instructional Staff | 209,904 | 272,762 | 209,904 | 272,762 |
| Board of Education | 31,318 | 28,233 | 31,318 | 28,233 |
| Administration | 622,955 | 560,989 | 622,955 | 560,989 |
| Fiscal | 268,695 | 273,364 | 268,695 | 273,364 |
| Operation and Maintenance of Plant | 664,003 | 625,934 | 664,003 | 625,934 |
| Pupil Transportation | 425,969 | 352,702 | 399,010 | 326,102 |
| Central | 4,986 | 4,233 | 4,986 | 4,233 |
| Non-Instructional Services | 340,135 | 326,460 | 16,176 | (13,702) |
| Extracurricular Activities | 359,872 | 296,321 | 222,302 | 217,148 |
| Total Expenses | <u>\$7,670,914</u> | <u>\$6,752,577</u> | <u>\$5,580,607</u> | <u>\$4,766,321</u> |

With the substantial contribution of general revenues for funding the School District's activities, only a limited number of activities are affected by program revenues. Approximately 36 percent of the costs for regular instruction are offset by program revenues, primarily from tuition and fees. The special instruction program also has approximately 33 percent of its costs offset by program revenues, primarily grants restricted for special instruction programs. Program revenues provided for almost the entire cost of the non-instructional services program for fiscal year 2017. This is primarily due to cafeteria sales, and state and federal subsidies and donated commodities for food service. Extracurricular activities costs are supported by music and athletic fees, ticket sales, gate receipts at musical and athletic events.

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The General Fund had a 14 percent increase in fund balance. Revenues increased approximately \$457,000, primarily property taxes and tuition. Expenses increased almost \$509,000 due to salary and benefit increases.

General Fund Budgeting Highlights

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

During fiscal year 2017, the School District amended its General Fund budget as needed. For revenues, changes from the original budget to the final budget were not significant. There was a 7 percent increase from the final budget to actual revenues, primarily due to tuition and fees and State foundation resources. For expenditures, there was not a significant change from original budget to the final budget, while final expenditures were 12 percent less than the final budget as a result of conservative budgeting.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2017, the School District had \$1,923,686 invested in capital assets (net of accumulated depreciation). Additions during the fiscal year included an entrance door, a tractor, and a bus. Disposals were minimal. For further information regarding the School District's capital assets, refer to Note 8 to the basic financial statements.

Debt

For fiscal year 2017, long-term obligations consisted of the net pension liability and compensated absences. For further information regarding the School District's long-term obligations, refer to Note 14 to the basic financial statements.

Current Issues

Currently, the School District has three different levies in place. In March 2016, voters approved a four-year emergency levy which generates approximately \$440,000 annually. In May 2015, the voters renewed a three-year emergency levy that generates approximately \$305,000 annually. In May 2014, the voters renewed a five-year 1 percent income tax levy to raise approximately \$760,000 annually. All three levies are used to maintain general operating expenditures incurred by the School District.

The School District accepts open enrollment of students from other school districts. During the 2016/2017 school year, one hundred eighty-seven students from other school districts attended Arcadia Local School District under the open enrollment program while only forty-six students left the School District to attend other schools.

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Angie Spridgeon, Treasurer, Arcadia Local School District, 19033 State Route 12, Arcadia, Ohio 44804.

Arcadia Local School District
Statement of Net Position
June 30, 2017

| | Governmental Activities |
|--|----------------------------|
| <u>Assets:</u> | |
| Equity in Pooled Cash and Cash Equivalents | \$6,515,055 |
| Accounts Receivable | 5,584 |
| Accrued Interest Receivable | 8,942 |
| Intergovernmental Receivable | 51,129 |
| Prepaid Items | 5,779 |
| Inventory Held for Resale | 5,235 |
| Materials and Supplies Inventory | 4,739 |
| Income Taxes Receivable | 417,895 |
| Property Taxes Receivable | 2,914,343 |
| Nondepreciable Capital Assets | 27,410 |
| Depreciable Capital Assets, Net | 1,896,276 |
| Total Assets | 11,852,387 |
| <u>Deferred Outflows of Resources:</u> | |
| Pension | 1,956,562 |
| <u>Liabilities:</u> | |
| Accounts Payable | 49,230 |
| Accrued Wages and Benefits Payable | 494,512 |
| Matured Compensated Absences Payable | 29,140 |
| Intergovernmental Payable | 121,674 |
| Long-Term Liabilities: | |
| Due Within One Year | 2,745 |
| Due in More Than One Year | |
| Net Pension Liability | 9,806,092 |
| Other Amounts | 325,986 |
| Total Liabilities | 10,829,379 |
| <u>Deferred Inflows of Resources:</u> | |
| Property Taxes | 2,602,944 |
| Pension | 34,959 |
| Total Deferred Inflows of Resources | 2,637,903 |
| <u>Net Position:</u> | |
| Net Investment in Capital Assets | 1,923,686 |
| Restricted For: | |
| Other Purposes | 206,568 |
| Unrestricted (Deficit) | (1,788,587) |
| Total Net Position | \$341,667 |

See Accompanying Notes to the Basic Financial Statements

Arcadia Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2017

| | Program Revenues | | |
|------------------------------------|-------------------------|---|-----------|
| Expenses | Charges for Services | Operating Grants, Contributions, and Interest | |
| <u>Governmental Activities:</u> | | | |
| Instruction: | | | |
| Regular | \$3,366,152 | \$1,144,614 | \$79,656 |
| Special | 668,895 | 44,162 | 178,700 |
| Vocational | 310,532 | 0 | 36,944 |
| Support Services: | | | |
| Pupils | 397,498 | 0 | 117,743 |
| Instructional Staff | 209,904 | 0 | 0 |
| Board of Education | 31,318 | 0 | 0 |
| Administration | 622,955 | 0 | 0 |
| Fiscal | 268,695 | 0 | 0 |
| Operation and Maintenance of Plant | 664,003 | 0 | 0 |
| Pupil Transportation | 425,969 | 26,959 | 0 |
| Central | 4,986 | 0 | 0 |
| Non-Instructional Services | 340,135 | 185,030 | 138,929 |
| Extracurricular Activities | 359,872 | 110,105 | 27,465 |
| Total Governmental Activities | \$7,670,914 | \$1,510,870 | \$579,437 |

General Revenues:

Property Taxes Levied for General Purposes
Income Taxes Levied for General Purposes
Grants and Entitlements not Restricted to Specific Programs
Interest
Gifts and Donations
Miscellaneous
Total General Revenues

Change in Net Position

Net Position (Deficit) at Beginning of Year
Net Position at End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Position
Governmental
Activities

(\$2,141,882)
(446,033)
(273,588)

(279,755)
(209,904)
(31,318)
(622,955)
(268,695)
(664,003)
(399,010)
(4,986)
(16,176)
(222,302)
(5,580,607)

2,804,296
872,069
2,325,226
35,444
21,898
32,584
6,091,517

510,910

(169,243)
\$341,667

Arcadia Local School District
Balance Sheet
Governmental Funds
June 30, 2017

| | General | Other Governmental | Total Governmental Funds |
|--|--------------------|-----------------------|--------------------------------|
| <u>Assets:</u> | | | |
| Equity in Pooled Cash and Cash Equivalents | \$6,302,061 | \$212,994 | \$6,515,055 |
| Accounts Receivable | 5,169 | 415 | 5,584 |
| Accrued Interest Receivable | 8,942 | 0 | 8,942 |
| Intergovernmental Receivable | 10,388 | 40,741 | 51,129 |
| Prepaid Items | 5,606 | 173 | 5,779 |
| Inventory Held for Resale | 0 | 5,235 | 5,235 |
| Materials and Supplies Inventory | 4,268 | 471 | 4,739 |
| Income Taxes Receivable | 417,895 | 0 | 417,895 |
| Property Taxes Receivable | 2,914,343 | 0 | 2,914,343 |
| Total Assets | <u>\$9,668,672</u> | <u>\$260,029</u> | <u>\$9,928,701</u> |
| <u>Liabilities:</u> | | | |
| Accounts Payable | \$31,114 | \$18,116 | \$49,230 |
| Accrued Wages and Benefits Payable | 473,816 | 20,696 | 494,512 |
| Matured Compensated Absences Payable | 21,988 | 7,152 | 29,140 |
| Intergovernmental Payable | 116,954 | 4,720 | 121,674 |
| Total Liabilities | <u>643,872</u> | <u>50,684</u> | <u>694,556</u> |
| <u>Deferred Inflows of Resources:</u> | | | |
| Property Taxes | 2,602,944 | 0 | 2,602,944 |
| Unavailable Revenue | 89,889 | 0 | 89,889 |
| Total Deferred Inflows of Resources | <u>2,692,833</u> | <u>0</u> | <u>2,692,833</u> |
| <u>Fund Balances:</u> | | | |
| Nonspendable | 9,874 | 644 | 10,518 |
| Restricted | 0 | 208,701 | 208,701 |
| Assigned | 2,893,338 | 0 | 2,893,338 |
| Unassigned | 3,428,755 | 0 | 3,428,755 |
| Total Fund Balances | <u>6,331,967</u> | <u>209,345</u> | <u>6,541,312</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$9,668,672</u> | <u>\$260,029</u> | <u>\$9,928,701</u> |

See Accompanying Notes to the Basic Financial Statements

Arcadia Local School District
 Reconciliation of Total Governmental Fund Balances
 to Net Position of Governmental Activities
 June 30, 2017

| | | |
|--|-------------|-------------|
| Total Governmental Fund Balances | | \$6,541,312 |
| <p>Amounts reported for governmental activities on the statement of net position are different because of the following:</p> | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | 1,923,686 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds. | | |
| Accounts Receivable | 5,012 | |
| Accrued Interest Receivable | 5,130 | |
| Income Taxes Receivable | 53,947 | |
| Delinquent Property Taxes Receivable | 25,800 | |
| | | 89,889 |
| Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds. | | (328,731) |
| The net pension liability is not due and payable in the current period, therefore, the liability and related deferred outflows/inflows are not reported in the governmental funds. | | |
| Deferred Outflows - Pension | 1,956,562 | |
| Deferred Inflows - Pension | (34,959) | |
| Net Pension Liability | (9,806,092) | |
| | | (7,884,489) |
| Net Position of Governmental Activities | | \$341,667 |

See Accompanying Notes to the Basic Financial Statements

Arcadia Local School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2017

| | <u>General</u> | <u>Other Governmental</u> | <u>Total Governmental Funds</u> |
|------------------------------------|--------------------|-------------------------------|---|
| <u>Revenues:</u> | | | |
| Property Taxes | \$2,808,479 | \$0 | \$2,808,479 |
| Income Taxes | 858,344 | 0 | 858,344 |
| Intergovernmental | 2,490,396 | 387,822 | 2,878,218 |
| Interest | 33,850 | 630 | 34,480 |
| Tuition and Fees | 1,188,269 | 0 | 1,188,269 |
| Extracurricular Activities | 2,536 | 107,569 | 110,105 |
| Charges for Services | 26,959 | 185,030 | 211,989 |
| Gifts and Donations | 21,898 | 27,880 | 49,778 |
| Miscellaneous | 31,901 | 683 | 32,584 |
| Total Revenues | <u>7,462,632</u> | <u>709,614</u> | <u>8,172,246</u> |
| <u>Expenditures:</u> | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 3,164,703 | 42,777 | 3,207,480 |
| Special | 614,030 | 43,294 | 657,324 |
| Vocational | 300,920 | 0 | 300,920 |
| Support Services: | | | |
| Pupils | 252,216 | 127,108 | 379,324 |
| Instructional Staff | 194,524 | 5,400 | 199,924 |
| Board of Education | 30,439 | 0 | 30,439 |
| Administration | 568,311 | 0 | 568,311 |
| Fiscal | 250,129 | 0 | 250,129 |
| Operation and Maintenance of Plant | 643,245 | 0 | 643,245 |
| Pupil Transportation | 455,909 | 0 | 455,909 |
| Central | 4,986 | 0 | 4,986 |
| Non-Instructional Services | 0 | 335,481 | 335,481 |
| Extracurricular Activities | 203,887 | 118,822 | 322,709 |
| Total Expenditures | <u>6,683,299</u> | <u>672,882</u> | <u>7,356,181</u> |
| Changes in Fund Balances | 779,333 | 36,732 | 816,065 |
| Fund Balances at Beginning of Year | 5,552,634 | 172,613 | 5,725,247 |
| Fund Balances at End of Year | <u>\$6,331,967</u> | <u>\$209,345</u> | <u>\$6,541,312</u> |

See Accompanying Notes to the Basic Financial Statements

Arcadia Local School District
 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
 of Governmental Funds to Statement of Activities
 For the Fiscal Year Ended June 30, 2017

Changes in Fund Balances - Total Governmental Funds \$816,065

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current fiscal year.

| | | |
|---|-----------|-------|
| Capital Outlay - Depreciable Capital Assets | 115,842 | |
| Depreciation | (111,627) | |
| | 4,215 | 4,215 |

The cost of capital assets is removed from the capital asset account on the statement of net position when disposed of resulting in a loss on disposal of capital assets on the statement of activities. (3,927)

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.

| | | |
|---------------------------|---------|-------|
| Delinquent Property Taxes | (4,183) | |
| Income Taxes | 13,725 | |
| Intergovernmental | (2,065) | |
| Interest | 1,594 | |
| Tuition and Fees | 507 | |
| | 9,578 | 9,578 |

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 22,178

Except for amounts reported as deferred outflows/inflows, changes in the net pension liability are reported as pension expense on the statement of activities. (830,297)

Contractually required contributions are reported as expenditures in the governmental funds, however, the statement of net position reports these amounts as deferred outflows. 493,098

Change in Net Position of Governmental Activities \$510,910

See Accompanying Notes to the Basic Financial Statements

Arcadia Local School District
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2017

| | Budgeted Amounts | | Actual | Variance with Final Budget Over (Under) |
|---|--------------------|--------------------|--------------------|--|
| | Original | Final | | |
| <u>Revenues:</u> | | | | |
| Property Taxes | \$2,604,777 | \$2,783,758 | \$2,822,932 | \$39,174 |
| Income Taxes | 808,089 | 808,089 | 858,158 | 50,069 |
| Intergovernmental | 2,294,000 | 2,299,000 | 2,490,771 | 191,771 |
| Interest | 20,000 | 20,000 | 40,287 | 20,287 |
| Tuition and Fees | 1,060,565 | 1,060,565 | 1,188,320 | 127,755 |
| Extracurricular Activities | 6,500 | 2,500 | 2,536 | 36 |
| Charges for Services | 20,000 | 20,000 | 26,959 | 6,959 |
| Gifts and Donations | 13,150 | 13,150 | 21,898 | 8,748 |
| Miscellaneous | 2,950 | 2,950 | 17,365 | 14,415 |
| Total Revenues | <u>6,830,031</u> | <u>7,010,012</u> | <u>7,469,226</u> | <u>459,214</u> |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 3,328,688 | 3,383,688 | 3,162,486 | 221,202 |
| Special | 501,471 | 501,471 | 595,592 | (94,121) |
| Vocational | 285,661 | 285,661 | 300,962 | (15,301) |
| Support Services: | | | | |
| Pupils | 234,105 | 234,105 | 240,356 | (6,251) |
| Instructional Staff | 312,021 | 312,021 | 218,442 | 93,579 |
| Board of Education | 38,505 | 38,505 | 31,384 | 7,121 |
| Administration | 575,783 | 575,783 | 568,475 | 7,308 |
| Fiscal | 264,264 | 264,264 | 247,041 | 17,223 |
| Operation and Maintenance of Plant | 1,186,129 | 1,186,129 | 697,057 | 489,072 |
| Pupil Transportation | 349,342 | 349,342 | 445,817 | (96,475) |
| Central | 6,000 | 6,000 | 4,986 | 1,014 |
| Extracurricular Activities | 248,243 | 249,243 | 204,356 | 44,887 |
| Capital Outlay | 250,000 | 250,000 | 0 | 250,000 |
| Total Expenditures | <u>7,580,212</u> | <u>7,636,212</u> | <u>6,716,954</u> | <u>919,258</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(750,181)</u> | <u>(626,200)</u> | <u>752,272</u> | <u>1,378,472</u> |
| <u>Other Financing Sources (Uses):</u> | | | | |
| Refund of Prior Year Expenditures | 5,000 | 5,000 | 4,534 | (466) |
| Refund of Prior Year Receipts | 0 | 0 | (4) | (4) |
| Total Other Financing Sources (Uses) | <u>5,000</u> | <u>5,000</u> | <u>4,530</u> | <u>(470)</u> |
| Changes in Fund Balance | (745,181) | (621,200) | 756,802 | 1,378,002 |
| Fund Balance at Beginning of Year | 5,362,268 | 5,362,268 | 5,362,268 | 0 |
| Prior Year Encumbrances Appropriated | 118,424 | 118,424 | 118,424 | 0 |
| Fund Balance at End of Year | <u>\$4,735,511</u> | <u>\$4,859,492</u> | <u>\$6,237,494</u> | <u>\$1,378,002</u> |

See Accompanying Notes to the Basic Financial Statements

Arcadia Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2017

| | |
|--|------------------------|
| <u>Assets:</u> | |
| Equity in Pooled Cash and Cash Equivalents | <u><u>\$64,260</u></u> |
| <u>Liabilities:</u> | |
| Undistributed Assets | \$2,927 |
| Due to Students | <u>61,333</u> |
| Total Liabilities | <u><u>\$64,260</u></u> |

See Accompanying Notes to the Basic Financial Statements

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1937. The School District serves an area of approximately sixty-one square miles. It is located in Hancock and Seneca Counties. It is staffed by thirty classified employees, forty-two certified teaching personnel, and five administrative employees who provide services to five hundred seventy-five students and other community members. The School District currently operates an elementary/middle/high school.

Reporting Entity

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

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

The School District participates in four jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, Millstream Career and Technology Center, Hancock County Local Professional Development Committee, Northwestern Ohio Educational Research Council, Inc., Schools of Ohio Risk Sharing Authority, Hancock County Schools Health Benefit Fund, and the Ohio School Boards Association Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 17 and 18 to the basic financial statements.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of Arcadia Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental activities (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). However, the School District has no business-type activities.

The statement of net position presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants, contributions, and interest that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental 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.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 2 - Summary of Significant Accounting Policies (continued)

B. Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions of the School District are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities and deferred inflows of resources is reported as fund balance. The School District's only major governmental fund is the General Fund.

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District did not have any trust funds in fiscal year 2017. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various non-instructional staff-related and student-managed activities.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 2 - Summary of Significant Accounting Policies (continued)

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting and the agency funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, recording of deferred outflows and deferred inflows of resources, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions

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

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

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: property taxes available as an advance, income taxes, grants, interest, tuition, student fees, and charges for services.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 2 - Summary of Significant Accounting Policies (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension and explained in Note 11 to the basic financial statements.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources includes property taxes, unavailable revenue, and pension. Property taxes represent amounts for which there was an enforceable legal claim as of June 30, 2017, but which were levied to finance fiscal year 2018 operations. This amount has been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes accrued interest, intergovernmental revenue including grants, income taxes, delinquent property taxes, and other sources. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available. For further details on unavailable revenue, refer to the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities on page 17. Deferred inflows of resources related to pension are reported on the government-wide statement of net position and explained in Note 11 to the basic financial statements.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the alternative tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The alternative tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control is at the fund level for all funds. Budgetary allocations at the function and object level within all funds are made by the School District Treasurer.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 2 - Summary of Significant Accounting Policies (continued)

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements 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 statements reflect the amounts on the final amended certificate of estimated resources requested by the School District prior to fiscal year end.

The appropriations resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations 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.

F. Cash and Investments

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

During fiscal year 2017, the School District invested in negotiable certificates of deposit and STAR Ohio. Investments are reported at fair value or amortized cost. Fair value is based on quoted market price. STAR Ohio is an investment pool, managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB) Statement No.79, “Certain External Investment Pools and Pool Participants”. The School District measures the investment in STAR Ohio at net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For fiscal year 2017, 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 twenty-four 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 are combined for these purposes.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2017 was \$33,850, which includes \$131 assigned from other School District funds.

Investments of the School District’s cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 2 - Summary of Significant Accounting Policies (continued)

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2017, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of administrative supplies, custodial supplies, donated and purchased food, and workbooks.

I. Capital Assets

All of the School District's capital assets are general capital assets generally resulting from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net position but are not reported on the fund financial statements.

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their acquisition value on the date donated. The School District maintains a capitalization threshold of one thousand dollars. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

| Description | Useful Lives |
|-------------------------------------|----------------|
| Land Improvements | 20 - 100 years |
| Buildings and Building Improvements | 25 - 100 years |
| Furniture, Fixtures, and Equipment | 5 - 60 years |
| Vehicles | 15 - 30 years |

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 2 - Summary of Significant Accounting Policies (continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after ten years of service.

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

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid.

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, net pension liability and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year.

L. Net Position

Net position represents the difference between all other elements on the statement of financial position. Net investment in capital assets consists of capital assets net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources restricted for food service operations, music and athletic programs, and federal and state grants.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

M. Fund Balance

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

Nonspendable - The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

Assigned - Amounts in the assigned classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assigned amounts represent intended uses established by the Board of Education. The Board of Education has authorized the Treasurer to assign fund balance for purchases on order provided those amounts have been lawfully appropriated. The Board of Education has also assigned fund balance to cover a gap between estimated resources and appropriations in the fiscal year 2018 budget. Certain resources have also been assigned for other educational activities.

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

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

N. Pensions

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

O. Estimates

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

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 3 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed, or assigned fund balance (GAAP basis).

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

Changes in Fund Balance

| | |
|---|-----------|
| GAAP Basis | \$779,333 |
| <u>Increase (Decrease) Due To:</u> | |
| Revenue Accruals: | |
| Accrued FY 2016, Received in Cash FY 2017 | 668,298 |
| Accrued FY 2017, Not Yet Received in Cash | (663,904) |
| Expenditure Accruals: | |
| Accrued FY 2016, Paid in Cash FY 2017 | (600,705) |
| Accrued FY 2017, Not Yet Paid in Cash | 643,872 |
| Cash Adjustments: | |
| Unrecorded Activity 2016 | (1,098) |
| Unrecorded Activity 2017 | 7,832 |
| Prepaid Items | (5,606) |
| Materials and Supplies Inventory | 1,179 |
| Encumbrances Outstanding at Fiscal Year End (Budget Basis) | (72,399) |
| Budget Basis | \$756,802 |

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 4 - Deposits and Investments

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio and, with certain limitations, bonds and other obligations of political subdivisions of the State of Ohio;
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);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Bankers' acceptances and commercial paper if training requirements have been met.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 4 - Deposits and Investments (continued)

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 School 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 for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$1,435,059 of the School District's bank balance of \$1,795,094 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School 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 School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured. Effective July 1, 2017, the Ohio Pooled Collateral System (OPCS) was implemented by the Ohio Treasurer of State. Financial institutions can elect to participate in the OPCS and will collateralize at 102 percent or a rate set by the Treasurer of State. Financial institutions opting not to participate in the OPCS will collateralize using the specific pledge method at 105 percent.

Investments

As of June 30, 2017, the School District had the following investments:

| Measurement/Investment | Measurement Amount | Maturity |
|------------------------------------|-----------------------|------------|
| Fair Value - Level Two Inputs | | |
| Negotiable Certificates of Deposit | \$249,778 | 1/4/18 |
| Negotiable Certificates of Deposit | 249,660 | 5/11/18 |
| Negotiable Certificates of Deposit | 245,093 | 7/2/18 |
| Negotiable Certificates of Deposit | 201,290 | 9/4/18 |
| Negotiable Certificates of Deposit | 244,160 | 3/29/19 |
| Negotiable Certificates of Deposit | 249,140 | 4/29/19 |
| Negotiable Certificates of Deposit | 200,326 | 5/13/19 |
| Negotiable Certificates of Deposit | 248,250 | 4/27/2020 |
| Negotiable Certificates of Deposit | 250,558 | 5/11/2020 |
| Negotiable Certificates of Deposit | 247,857 | 5/26/2020 |
| Negotiable Certificates of Deposit | 114,578 | 11/23/2020 |
| Negotiable Certificates of Deposit | 139,537 | 5/10/2021 |
| Net Value Per Share | | |
| Star Ohio | 2,234,917 | 45.5 days |
| Total Investments | \$4,875,144 | |

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 4 - Deposits and Investments (continued)

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the School District's recurring fair value measurements as of June 30, 2017. The School District's investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data (Level 2 inputs).

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the School District.

The negotiable certificates of deposit are covered by SIPC insurance. STAR Ohio carries a rating of AAA by Standard and Poor's. The School District has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

The School District places no limit on the amount it may invest in any one issuer or investment type. The following table indicates the percentage of investments to the School District's total portfolio:

| | Fair Value | Percentage of Portfolio |
|------------------------------------|-------------|----------------------------|
| Negotiable Certificates of Deposit | \$2,640,227 | 54.2% |

Note 5 - Receivables

Receivables at June 30, 2017, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except income taxes and property taxes, are expected to be collected within one year. Income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 5 - Receivables (continued)

A summary of the principal items of intergovernmental receivables follows:

| | Amount |
|-------------------------------------|----------|
| General Fund | |
| Bureau of Workers' Compensation | \$8,487 |
| Medicaid | 1,694 |
| Miscellaneous | 207 |
| Total General Fund | 10,388 |
| Other Governmental Funds | |
| Food Service | 268 |
| Title I | 27 |
| REAP | 40,446 |
| Total Other Governmental Funds | 40,741 |
| Total Intergovernmental Receivables | \$51,129 |

Note 6 - Income Taxes

The School District levies a voted tax of 1 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2005, and is currently due to expire in 2019. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenues received in calendar year 2017 represent the collection of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed values as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 7 - Property Taxes (continued)

Public utility property tax revenues received in calendar year 2017 represent the collection of calendar year 2016 taxes. Public utility real and tangible personal property taxes received in calendar year 2017 became a lien on December 31, 2015, were levied after April 1, 2016, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The School District receives property taxes from Hancock and Seneca Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2017, are available to finance fiscal year 2017 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real and public utility property taxes which were measurable as of June 30, 2017, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations and are reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources - property taxes.

The amount available as an advance at June 30, 2017, was \$285,599 in the General Fund. The amount available as an advance at June 30, 2016, was \$300,052 in the General Fund.

Collectible delinquent property taxes have been recorded as a receivable and revenue on an accrual basis. On a modified accrual basis, the revenue has been recorded as deferred inflows of resources - unavailable revenue.

The assessed values upon which fiscal year 2017 taxes were collected are:

| | 2016 Second- Half Collections | | 2017 First- Half Collections | |
|---|----------------------------------|-------------|---------------------------------|-------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential | \$79,265,910 | 75.20% | \$87,640,320 | 73.46% |
| Industrial/Commercial | 7,023,050 | 6.66 | 7,231,890 | 6.06 |
| Public Utility | 19,117,220 | 18.14 | 24,439,110 | 20.48 |
| Total Assessed Value | <u>\$105,406,180</u> | <u>100%</u> | <u>\$119,311,320</u> | <u>100%</u> |
| Tax rate per \$1,000 of assessed valuation | \$29.77 | | \$28.96 | |

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 8 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

| | Balance at 6/30/16 | Additions | Reductions | Balance at 6/30/17 |
|-------------------------------------|-----------------------|-----------|------------|-----------------------|
| Governmental Activities | | | | |
| Nondepreciable Capital Assets | | | | |
| Land | \$27,410 | \$0 | \$0 | \$27,410 |
| Depreciable Capital Assets | | | | |
| Land Improvements | 203,359 | 0 | 0 | 203,359 |
| Buildings and Building Improvements | 1,605,779 | 9,900 | 0 | 1,615,679 |
| Furniture, Fixtures, and Equipment | 932,614 | 19,666 | (11,316) | 940,964 |
| Vehicles | 810,040 | 86,276 | (45,664) | 850,652 |
| Total Depreciable Capital Assets | 3,551,792 | 115,842 | (56,980) | 3,610,654 |
| Less Accumulated Depreciation | | | | |
| Land Improvements | (65,979) | (4,596) | 0 | (70,575) |
| Buildings and Building Improvements | (612,444) | (32,057) | 0 | (644,501) |
| Furniture, Fixtures, and Equipment | (616,885) | (34,769) | 7,389 | (644,265) |
| Vehicles | (360,496) | (40,205) | 45,664 | (355,037) |
| Total Accumulated Depreciation | (1,655,804) | (111,627) | 53,053 | (1,714,378) |
| Depreciable Capital Assets, Net | 1,895,988 | 4,215 | (3,927) | 1,896,276 |
| Governmental Activities | | | | |
| Capital Assets, Net | \$1,923,398 | \$4,215 | (\$3,927) | \$1,923,686 |

Depreciation expense was charged to governmental functions as follows:

| | |
|------------------------------------|------------------|
| Instruction: | |
| Regular | \$13,410 |
| Special | 288 |
| Vocational | 934 |
| Support Services: | |
| Pupils | 159 |
| Instructional Staff | 283 |
| Administration | 1,334 |
| Fiscal | 346 |
| Operation and Maintenance of Plant | 21,137 |
| Pupil Transportation | 40,148 |
| Non-Instructional Services | 8,865 |
| Extracurricular Activities | 24,723 |
| Total Depreciation Expense | <u>\$111,627</u> |

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 9 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the School District contracted for the following insurance coverage:

Coverage provided through Schools of Ohio Risk Sharing Authority is as follows:

| | |
|-----------------------------------|--------------|
| Building and Contents | \$21,521,386 |
| General School District Liability | |
| Per Occurrence | 15,000,000 |
| Aggregate | 17,000,000 |
| Automobile Liability | 15,000,000 |
| Excess Liability | 10,000,000 |

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

For fiscal year 2017, the School District participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with the SORSA for insurance coverage and pays annual premiums to the SORSA based on the types and limits of coverage and deductibles selected by the participant.

The School District participates in the Hancock County Schools Health Benefit Fund (Fund), a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Developmental Disabilities. The School District pays monthly premiums to the Fund for employee medical, dental, and life insurance benefits. The Fund is responsible for the management and operations of the program. Upon withdrawal from the Fund, a participant is responsible for the payment of all Fund liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

For fiscal year 2017, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 10 - Other Purchase Commitments

At fiscal year end, the amount of significant encumbrances expected to be honored upon performance by the vendor in fiscal year 2018 are as follows:

| | |
|--------------------------|------------------|
| General Fund | \$72,399 |
| Other Governmental Funds | 32,933 |
| Total | <u>\$105,332</u> |

Note 11 - Defined Benefit Pension Plans

Net Pension Liability

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

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

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

GASB Statement No. 68 assumes the liability is solely the obligation of the employer because (1) they benefit from employee services and (2) State statute requires all funding to come from the employers. All contributions to date have come solely from the employer (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within thirty years. If the amortization period exceeds thirty years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 11 - Defined Benefit Pension Plans (continued)

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows.

| | Eligible to retire on or before August 1, 2017 * | Eligible to retire on or after August 1, 2017 |
|------------------------------|--|---|
| Full Benefits | Any age with 30 years of service credit | Age 67 with 10 years of service credit; 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; Age 60 with 25 years of service credit |

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

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

One year after an effective benefit date, a benefit recipient is entitled to a 3 percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School District's contractually required contribution to SERS was \$125,545 for fiscal year 2017. Of this amount, \$20,151 is reported as an intergovernmental payable.

Note 11 - Defined Benefit Pension Plans (continued)

Plan Description - State Teachers Retirement System (STRS)

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

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

The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by 2 percent of the original base benefit. For members retiring August 1, 2013, or later, the first 2 percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age sixty with five years of qualifying service credit, at age fifty-five with twenty-six years of service credit, or thirty-one years of service credit regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age sixty-five or thirty-five years of service credit and at least age sixty.

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

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

New members who choose the DCP or CP will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's CP account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB Statement No. 68 reporting purposes.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 11 - Defined Benefit Pension Plans (continued)

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The statutory member contribution rate was increased 1 percent to 14 percent on July 1, 2016. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$367,553 for fiscal year 2017. Of this amount, \$62,856 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense.

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|---|--------------------|--------------------|--------------|
| Proportion of the Net Pension Liability Prior Measurement Date | 0.02555420% | 0.02314245% | |
| Proportion of the Net Pension Liability Current Measurement Date | <u>0.02597040%</u> | <u>0.02361693%</u> | |
| Change in Proportionate Share | <u>0.00041620%</u> | <u>0.00047448%</u> | |
| Proportionate Share of the Net Pension Liability | \$1,900,793 | \$7,905,299 | \$9,806,092 |
| Pension Expense | \$230,779 | \$599,518 | \$830,297 |

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 11 - Defined Benefit Pension Plans (continued)

At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|------------------|--------------------|--------------------|
| Deferred Outflows of Resources | | | |
| Differences Between Expected and Actual Experience | \$25,637 | \$319,412 | \$345,049 |
| Changes of Assumptions | 126,888 | 0 | 126,888 |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 156,788 | 656,352 | 813,140 |
| Changes in Proportionate Share and Difference Between School District Contributions and Proportionate Share of Contributions | 74,313 | 104,074 | 178,387 |
| School District Contributions Subsequent to the Measurement Date | <u>125,545</u> | <u>367,553</u> | <u>493,098</u> |
| Total Deferred Outflows of Resources | <u>\$509,171</u> | <u>\$1,447,391</u> | <u>\$1,956,562</u> |
| Deferred Inflows of Resources | | | |
| Changes in Proportionate Share and Difference Between School District Contributions and Proportionate Share of Contributions | <u>\$0</u> | <u>\$34,959</u> | <u>\$34,959</u> |

\$493,098 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows.

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|----------------------------|------------------|--------------------|--------------------|
| Fiscal Year Ended June 30, | | | |
| 2018 | \$110,495 | \$168,858 | \$279,353 |
| 2019 | 110,383 | 168,857 | 279,240 |
| 2020 | 117,679 | 420,719 | 538,398 |
| 2021 | <u>45,069</u> | <u>286,445</u> | <u>331,514</u> |
| Total | <u>\$383,626</u> | <u>\$1,044,879</u> | <u>\$1,428,505</u> |

Actuarial Assumptions - SERS

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

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 11 - Defined Benefit Pension Plans (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, 2016, compared with June 30, 2015, are presented below.

| | June 30, 2016 | June 30, 2015 |
|---|--|---|
| Wage Inflation | 3 percent | 3.25 percent |
| Future Salary Increases, including inflation | 3.5 percent to 18.2 percent | 4 percent to 22 percent |
| COLA or Ad Hoc COLA | 3 percent | 3 percent |
| Investment Rate of Return | 7.5 percent net of investment expenses, including inflation | 7.75 percent net of investment expenses, including inflation |
| Actuarial Cost Method | entry age normal | entry age normal |

For 2016, the mortality assumptions are that mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projections and a five year set back for both males and females. For 2015, the mortality assumptions were based on the 1994 Group Annuity Mortality Table set back one year for both males and females. Special mortality tables were used for the period after disability retirement.

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

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

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 11 - Defined Benefit Pension Plans (continued)

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

Discount Rate - The total pension liability was calculated using the discount rate of 7.5 percent. A discount rate of 7.75 percent was used in the prior measurement period. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.5 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate and to illustrate the potential impact, the following table presents the net pension liability calculated using the discount rate of 7.5 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 (6.5 percent) or one percentage point higher (8.5 percent) than the current rate.

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|--|-----------------------|------------------------------------|-----------------------|
| School District's Proportionate Share of the Net Pension Liability | \$2,516,532 | \$1,900,793 | \$1,385,395 |

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement.

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

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 11 - Defined Benefit Pension Plans (continued)

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022-Scale AA) for males and females. Males ages are set back two years through age eighty-nine and no set back for age ninety and above. Females younger than age eighty are set back four years, one year set back from age eighty through eighty-nine, and no set back from age ninety and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study effective July 1, 2012.

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

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

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.50 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and, therefore, is not a weighted average return of the individual asset classes.

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. 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 excluded. 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, 2016. 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, 2016.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 11 - Defined Benefit Pension Plans (continued)

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

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| School District's Proportionate Share of the Net Pension Liability | 10,505,499 | 7,905,299 | 5,711,876 |

Changes Between Measurement Date and Report Date

In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to the School District's net pension liability is expected to be significant.

Social Security

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2017, none of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 12 - Postemployment Benefits

School Employees Retirement System (SERS)

Health Care Plan Description - The School District contributes to the SERS Health Care Fund administered by SERS for classified retirees and their beneficiaries. For GASB Statement No. 45 purposes, this plan is considered a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan. SERS offers several types of health care plans from various vendors including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health care coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 12 - Postemployment Benefits (continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). The SERS Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2017, no allocation of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount; prorated if less than a full year of service credit was earned. For fiscal year 2017, this amount was \$23,500. State statute provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2017, the School District's surcharge obligation was \$15,215.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the amount assigned to the Health Care Fund. The School District's contribution for health care for the fiscal years ended June 30, 2017, 2016, and 2015 was \$0, \$0, and \$6,308, respectively. The full amount has been contributed for all three fiscal years.

State Teachers Retirement System (STRS)

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

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the health care plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the health care plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal years ended June 30, 2017, 2016, and 2015, STRS did not allocate any employer contributions to postemployment health care.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 13 - Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days for both classified and certified employees. Upon retirement, payment is made for three-tenths of the accrued but unused sick leave credit to a maximum of sixty days for both classified and certified employees.

B. Health Care Benefits

The School District provides medical, dental, and vision insurance to all employees through the Hancock County Schools Health Benefit Fund. The School District offers life insurance to all employees through the Ohio Schools Council. Depending upon the plan chosen, the employees share the cost of monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

C. Separation Benefits

The School District provides a separation benefit to eligible certified employees. An employee that gives written notice of retirement by December 15 will receive a \$1,000 payment.

Note 14 - Long-Term Obligations

Changes in the School District's long-term obligations during fiscal year 2017 were as follows:

| | Balance at 6/30/16 | Additions | Reductions | Balance at 6/30/17 | Amounts Due Within One Year |
|-------------------------------|-----------------------|-------------|------------|-----------------------|--------------------------------------|
| Governmental Activities | | | | | |
| General Long-Term Obligations | | | | | |
| Net Pension Liability | | | | | |
| SERS | \$1,458,148 | \$442,645 | \$0 | \$1,900,793 | \$0 |
| STRS | 6,395,897 | 1,509,402 | 0 | 7,905,299 | 0 |
| Total Net Pension Liability | 7,854,045 | 1,952,047 | 0 | 9,806,092 | 0 |
| Compensated Absences Payable | 350,909 | 0 | 22,178 | 328,731 | 2,745 |
| Total Long-Term Obligations | \$8,204,954 | \$1,952,047 | \$22,178 | \$10,134,823 | \$2,745 |

There is no repayment schedule for the net pension liability; however, employer pension contributions are made from the General Fund and the Food Service special revenue fund. For additional information related to the net pension liability, see Note 11 to the basic financial statements.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 14 - Long-Term Obligations (continued)

Compensated absences will be paid from the General Fund and the Food Service special revenue fund.

The School District's overall debt margin was \$8,559,080 with an unvoted debt margin of \$95,101 at June 30, 2017.

Note 15 - Set Asides

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

The following cash basis information identifies the change in the fund balance reserve for capital improvements during fiscal year 2017.

| | Capital Improvements |
|------------------------------------|-------------------------|
| Balance June 30, 2016 | \$0 |
| Current Year Set Aside Requirement | 100,727 |
| Qualifying Expenditures | (100,727) |
| Reserve Balance June 30, 2017 | \$0 |

Note 16 - Fund Balance

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

| Fund Balance | General | Other Governmental | Total Governmental Funds |
|-------------------------------------|---------|-----------------------|--------------------------------|
| Nonspendable for: | | | |
| Prepaid Items | \$5,606 | \$173 | \$5,779 |
| Materials and Supplies Inventory | 4,268 | 471 | 4,739 |
| Total Nonspendable | 9,874 | 644 | 10,518 |

(continued)

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 16 - Fund Balance (continued)

| Fund Balance | General | Other Governmental | Total Governmental Funds |
|---|--------------------|-----------------------|--------------------------------|
| Restricted for: | | | |
| Athletics and Music | \$0 | \$40,078 | \$40,078 |
| Emergency Management Information Systems | 0 | 12,220 | 12,220 |
| Facilities Maintenance | 0 | 879 | 879 |
| Food Service Operations | 0 | 69,258 | 69,258 |
| Inventory Held for Resale | 0 | 5,235 | 5,235 |
| Regular Instruction | 0 | 26,520 | 26,520 |
| Remedial Reading | 0 | 32,309 | 32,309 |
| Special Needs Children | 0 | 3,651 | 3,651 |
| Technology Improvement | 0 | 18,551 | 18,551 |
| Total Restricted | <u>0</u> | <u>208,701</u> | <u>208,701</u> |
| Assigned for: | | | |
| Educational Activities | 22,081 | 0 | 22,081 |
| Projected Budget Shortage | 2,822,623 | 0 | 2,822,623 |
| Unpaid Obligations | 48,634 | 0 | 48,634 |
| Total Assigned | <u>2,893,338</u> | <u>0</u> | <u>2,893,338</u> |
| Unassigned | <u>3,428,755</u> | <u>0</u> | <u>3,428,755</u> |
| Total Fund Balance | <u>\$6,331,967</u> | <u>\$209,345</u> | <u>\$6,541,312</u> |

Note 17 - Jointly Governed Organizations

A. Northwest Ohio Area Computer Services Cooperative

The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta. 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 NOACSC consists of two representatives from each county. During fiscal year 2017, the School District paid \$21,468 to NOACSC for various services. Financial information can be obtained from NOACSC, 645 South Main Street, Lima, Ohio 45804.

Note 17 - Jointly Governed Organizations (continued)

B. Millstream Career and Technology Center

The Millstream Career and Technology Center (Center) is a distinct political subdivision of the State of Ohio established under Section 3313.90 of the Ohio Revised Code. The Center provides vocational instruction to students. The Center operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative appointed by the Findlay City School District. The Treasurers from the Hancock and Putnam County Educational Service Centers serve in an ex-officio capacity for all meetings. Financial information can be obtained from the Findlay City School District, 1219 West Main Cross, Suite 101, Findlay, Ohio 45840-3377.

C. Hancock County Local Professional Development Committee

The Hancock County Local Professional Development Committee (HCLPDC) was established in 1999 to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The HCLPDC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its members. The HCLPDC is governed by a thirteen member Executive Board. Financial information can be obtained from the Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

D. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools, and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., 441 East Market Street, Celina, Ohio 45822.

Note 18 - Insurance Pools

A. Schools of Ohio Risk Sharing Authority

The School District participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an incorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. SORSA's business and affairs are conducted by a board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishing agreements between SORSA and its members. Financial information can be obtained from Willis Pooling, 775 Yard Street, Suite 200, Grandview Heights, Ohio 43212.

B. Hancock County Schools Health Benefit Fund

The Hancock County Schools Health Benefit Fund is a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Developmental Disabilities. The Plan is a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, vision, and life insurance benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the consultant concerning aspects of the administration of the Plan.

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Fund is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Neace Lukens, 285 Cozzins Street, Columbus, Ohio 43215.

C. Ohio School Boards Association Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool.

The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the GRP. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 19 - Contingencies

A. Grants

The School 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2017.

B. School Foundation

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. 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, 2017, foundation funding for the School District, therefore, any financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or a liability of the School District.

C. Litigation

There are currently no matters in litigation with the School District as defendant.

Arcadia Local School District
 Required Supplementary Information
 Schedule of the School District's Proportionate Share of the Net Pension Liability
 School Employees Retirement System of Ohio
 Last Four Fiscal Years (1)

| | 2017 | 2016 | 2015 | 2014 |
|--|-------------|-------------|-------------|-------------|
| School District's Proportion of the Net Pension Liability | 0.02597040% | 0.02555420% | 0.02366800% | 0.02366800% |
| School District's Proportionate Share of the Net Pension Liability | \$1,900,793 | \$1,458,148 | \$1,197,825 | \$1,407,460 |
| School District's Employee Payroll | \$809,250 | \$769,317 | \$545,191 | \$566,176 |
| School District's Proportionate Share of the Net Pension Liability as a Percentage of Employee Payroll | 234.88% | 189.54% | 219.71% | 248.59% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 62.98% | 69.16% | 71.70% | 65.52% |

(1) Information prior to 2014 is not available.

Amounts presented as of the School District's measurement date which is the prior fiscal year end.

Arcadia Local School District
 Required Supplementary Information
 Schedule of the School District's Proportionate Share of the Net Pension Liability
 State Teachers Retirement System of Ohio
 Last Four Fiscal Years (1)

| | 2017 | 2016 | 2015 | 2014 |
|--|-------------|-------------|-------------|-------------|
| School District's Proportion of the Net Pension Liability | 0.02361693% | 0.02314245% | 0.02334174% | 0.02334174% |
| School District's Proportionate Share of the Net Pension Liability | \$7,905,299 | \$6,395,897 | \$5,677,517 | \$6,763,023 |
| School District's Employee Payroll | \$2,500,150 | \$2,439,193 | \$2,379,023 | \$2,457,846 |
| School District's Proportionate Share of the Net Pension Liability as a Percentage of Employee Payroll | 316.19% | 262.21% | 238.65% | 275.16% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 66.80% | 72.10% | 74.70% | 69.30% |

(1) Information prior to 2014 is not available.

Amounts presented as of the School District's measurement date which is the prior fiscal year end.

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Arcadia Local School District
 Required Supplementary Information
 Schedule of the School District's Contributions
 School Employees Retirement System of Ohio
 Last Ten Fiscal Years

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|------------------|------------------|------------------|-----------------|
| Contractually Required Contribution | \$125,545 | \$113,295 | \$101,396 | \$71,420 |
| Contributions in Relation to the Contractually Required Contribution | <u>(125,545)</u> | <u>(113,295)</u> | <u>(101,396)</u> | <u>(71,420)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| School District Employee Payroll | \$896,750 | \$809,250 | \$769,317 | \$545,191 |
| Contributions as a Percentage of Employee Payroll | 14.00% | 14.00% | 13.18% | 13.10% |

| <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| \$74,169 | \$78,349 | \$70,694 | \$72,239 | \$60,850 | \$62,145 |
| <u>(74,169)</u> | <u>(78,349)</u> | <u>(70,694)</u> | <u>(72,239)</u> | <u>(60,850)</u> | <u>(62,145)</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$566,176 | \$616,921 | \$598,594 | \$565,250 | \$669,417 | \$678,439 |
| 13.10% | 12.70% | 11.81% | 12.78% | 9.09% | 9.16% |

Arcadia Local School District
 Required Supplementary Information
 Schedule of the School District's Contributions
 State Teachers Retirement System of Ohio
 Last Ten Fiscal Years

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|------------------|------------------|------------------|------------------|
| Contractually Required Contribution | \$367,553 | \$350,021 | \$341,487 | \$309,273 |
| Contributions in Relation to the Contractually Required Contribution | <u>(367,553)</u> | <u>(350,021)</u> | <u>(341,487)</u> | <u>(309,273)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| School District Employee Payroll | \$2,625,379 | \$2,500,150 | \$2,439,193 | \$2,379,023 |
| Contributions as a Percentage of Employee Payroll | 14.00% | 14.00% | 14.00% | 13.00% |

| <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$319,520 | \$306,280 | \$317,682 | \$323,630 | \$330,607 | \$328,650 |
| <u>(319,520)</u> | <u>(306,280)</u> | <u>(317,682)</u> | <u>(323,630)</u> | <u>(330,607)</u> | <u>(328,650)</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$2,457,846 | \$2,356,000 | \$2,443,708 | \$2,489,462 | \$2,543,131 | \$2,528,077 |
| 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |

Arcadia Local School District
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2017

Changes in Assumptions - SERS

Amounts reported for fiscal year 2017 incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2016 and prior are presented below.

| | Fiscal Year 2017 | Fiscal Year 2016 and Prior |
|---|--|---|
| Wage Inflation | 3 percent | 3.25 percent |
| Future Salary Increases, including inflation | 3.5 percent to 18.2 percent | 4 percent to 22 percent |
| Investment Rate of Return | 7.5 percent net of investment expenses, including inflation | 7.75 percent net of investment expenses, including inflation |

Amounts reported for fiscal year 2017 use mortality assumptions that are based on the RP-2014 Blue Collar Mortality Table with fully generational projections and a five year set back for both males and females. Amounts reported for fiscal year 2016 and prior use mortality assumptions based on the 1994 Group Annuity Mortality Table set back one year for both males and females. Special mortality tables were used for the period after disability retirement.

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

The discussion and analysis of Arcadia Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Highlights for fiscal year 2016 are as follows:

In total, net position increased \$951,759, or 85 percent.

General revenues accounted for 74 percent of total revenues and reflect the School District's significant dependence on property taxes, income taxes, and unrestricted state entitlements.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Arcadia Local School District as a financial whole, or as an entire operating entity.

The statement of net position and the statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds, with all other nonmajor funds presented in total in a single column. For Arcadia Local School District, the General Fund is the most significant fund.

Reporting the School District as a Whole

The statement of net position and the statement of activities reflect how the School District did financially during fiscal year 2016. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the School District's net position and changes in net position. This change in net position is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

In the statement of net position and the statement of activities, all of the School District's activities are presented as governmental activities and include instruction, support services, non-instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's only major fund is the General Fund.

Governmental Funds - All of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

The School District as a Whole

Table 1 provides a summary of the School District's net position for fiscal year 2016 and fiscal year 2015.

Table 1
Net Position

| | Governmental Activities | | Change |
|---------------------------------------|-------------------------|------------------|------------------|
| | 2016 | 2015 | |
| <u>Assets</u> | | | |
| Current and Other Assets | \$8,773,647 | \$7,786,719 | \$986,928 |
| Capital Assets, Net | 1,923,398 | 1,893,745 | 29,653 |
| Total Assets | <u>10,697,045</u> | <u>9,680,464</u> | <u>1,016,581</u> |
| <u>Deferred Outflows of Resources</u> | | | |
| Pension | <u>861,666</u> | <u>507,736</u> | <u>353,930</u> |
| <u>Liabilities</u> | | | |
| Current and Other Liabilities | 671,943 | 769,895 | 97,952 |
| Long-Term Liabilities | | | |
| Pension | 7,854,045 | 6,875,342 | (978,703) |
| Other Amounts | 350,909 | 340,515 | (10,394) |
| Total Liabilities | <u>8,876,897</u> | <u>7,985,752</u> | <u>(891,145)</u> |

(continued)

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Table 1
Net Position
(continued)

| | Governmental Activities | | Change |
|--------------------------------------|-------------------------|----------------------|------------------|
| | 2016 | 2015 | |
| <u>Deferred Inflows of Resources</u> | | | |
| Pension | \$554,911 | \$1,244,773 | \$689,862 |
| Other Amounts | 2,296,146 | 2,078,677 | (217,469) |
| Total Deferred Inflows of Resources | <u>2,851,057</u> | <u>3,323,450</u> | <u>472,393</u> |
| <u>Net Position</u> | | | |
| Net Investment in Capital Assets | 1,923,398 | 1,893,745 | 29,653 |
| Restricted | 163,839 | 127,248 | 36,591 |
| Unrestricted (Deficit) | <u>(2,256,480)</u> | <u>(3,141,995)</u> | <u>885,515</u> |
| Total Net Position (Deficit) | <u>(\$169,243)</u> | <u>(\$1,121,002)</u> | <u>\$951,759</u> |

The net pension liability is the largest liability reported by the School District at June 30, 2016, and is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions". For reasons discussed below, end users of these financial statements will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

GASB standards are national standards and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and State law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB Statement No. 68 requires the net pension liability to equal the School District's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange", that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Most long-term liabilities have set repayment schedules or in the case of compensated absences (i.e. vacation and sick leave) are satisfied through paid time off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability but are outside the control of the School District. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB Statement No. 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred outflows/inflows.

Total net position increased significantly from the prior fiscal year. There was a substantial increase in current and other assets (approximately \$778,000 in cash and cash equivalents and \$139,000 in property taxes receivable). The increase in cash and cash equivalents is primarily due to an increase in open enrollment and in State foundation funding. Property taxes are based on the assessed valuation of property and there was an increase in the valuation of public utility property of over \$6 million. The decrease in current and other liabilities is largely due to a decrease in contracts payable as remaining obligations for window replacement were paid and there was a decrease in matured compensated absences. The effect of these changes was a significant increase in unrestricted net position.

Table 2
Change in Net Position

| | Governmental Activities | | Change |
|--|-------------------------|------------------|----------------|
| | 2016 | 2015 | |
| <u>Revenues</u> | | | |
| Program Revenues | | | |
| Charges for Services | \$1,388,879 | \$1,196,988 | \$191,891 |
| Operating Grants, Contributions, and Interest | 597,377 | 528,367 | 69,010 |
| Capital Grants and Contributions | 0 | 4,597 | (4,597) |
| Total Program Revenues | <u>1,986,256</u> | <u>1,729,952</u> | <u>256,304</u> |
| General Revenues | | | |
| Property Taxes Levied for General Purposes | 2,549,849 | 2,469,553 | 80,296 |
| Income Taxes Levied for General Purposes | 844,950 | 798,500 | 46,450 |
| Grants and Entitlements not Restricted to Specific Programs | 2,262,335 | 2,049,851 | 212,484 |
| Interest | 16,130 | 6,466 | 9,664 |
| Gifts and Donations | 23,697 | 8,867 | 14,830 |
| Miscellaneous | 21,119 | 35,938 | (14,819) |
| Total General Revenues | <u>5,718,080</u> | <u>5,369,175</u> | <u>348,905</u> |
| Total Revenues | <u>7,704,336</u> | <u>7,099,127</u> | <u>605,209</u> |

(continued)

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Table 2
Change in Net Position
(continued)

| | Governmental Activities | | Change |
|---|-------------------------|----------------------|------------------|
| | 2016 | 2015 | |
| <u>Expenses</u> | | | |
| Instruction: | | | |
| Regular | \$2,957,991 | \$2,901,838 | (\$56,153) |
| Special | 523,382 | 486,547 | (36,835) |
| Vocational | 264,313 | 270,075 | 5,762 |
| Support Services: | | | |
| Pupils | 265,893 | 228,717 | (37,176) |
| Instructional Staff | 272,762 | 207,632 | (65,130) |
| Board of Education | 28,233 | 33,160 | 4,927 |
| Administration | 560,989 | 593,646 | 32,657 |
| Fiscal | 273,364 | 216,838 | (56,526) |
| Operation and Maintenance of Plant | 625,934 | 1,226,862 | 600,928 |
| Pupil Transportation | 352,702 | 338,136 | (14,566) |
| Central | 4,233 | 4,681 | 448 |
| Non-Instructional Services | 326,460 | 302,275 | (24,185) |
| Extracurricular Activities | 296,321 | 253,152 | (43,169) |
| Total Expenses | <u>6,752,577</u> | <u>7,063,559</u> | <u>310,982</u> |
| Increase in Net Position | 951,759 | 35,568 | 916,191 |
| Net Position (Deficit) at Beginning of Year | <u>(1,121,002)</u> | <u>(1,156,570)</u> | <u>35,568</u> |
| Net Position (Deficit) at End of Year | <u>(\$169,243)</u> | <u>(\$1,121,002)</u> | <u>\$951,759</u> |

Total revenues increased approximately 9 percent from the prior fiscal year. Program revenues increased 15 percent as charges for services increased due to higher open enrollment and as there was an increase in federal funds (operating grants and contributions) from the Rural Education Achievement Program. General revenues increased primarily due to an increase in unrestricted State foundation funding but there were also increases in both property taxes and income taxes.

Total expenses decreased 4 percent. The largest decrease was in the operation and maintenance of plant program and due to costs associated with window repair/replacement expensed in the prior fiscal year. Not surprisingly, the major expense is for instruction, which accounts for 55 percent of total expenses. Other programs which support the instruction process including pupils, instructional staff, and pupil transportation account for 13 percent of total expenses. Maintenance of the School District's facilities also represents a significant expense, over 9 percent.

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

Table 3
Governmental Activities

| | Total Cost of Services | | Net Cost of Services | |
|------------------------------------|------------------------|--------------------|----------------------|--------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Instruction: | | | | |
| Regular | \$2,957,991 | \$2,901,838 | \$1,771,062 | \$1,961,172 |
| Special | 523,382 | 486,547 | 309,448 | 263,829 |
| Vocational | 264,313 | 270,075 | 237,302 | 249,256 |
| Support Services: | | | | |
| Pupils | 265,893 | 228,717 | 153,446 | 117,487 |
| Instructional Staff | 272,762 | 207,632 | 272,762 | 207,632 |
| Board of Education | 28,233 | 33,160 | 28,233 | 33,160 |
| Administration | 560,989 | 593,646 | 560,989 | 593,646 |
| Fiscal | 273,364 | 216,838 | 273,364 | 216,838 |
| Operation and Maintenance of Plant | 625,934 | 1,226,862 | 625,934 | 1,226,862 |
| Pupil Transportation | 352,702 | 338,136 | 326,102 | 311,958 |
| Central | 4,233 | 4,681 | 4,233 | 4,681 |
| Non-Instructional Services | 326,460 | 302,275 | (13,702) | (13,275) |
| Extracurricular Activities | 296,321 | 253,152 | 217,148 | 160,361 |
| Total Expenses | <u>\$6,752,577</u> | <u>\$7,063,559</u> | <u>\$4,766,321</u> | <u>\$5,333,607</u> |

With the substantial contribution of general revenues for funding the School District's activities, only a limited number of activities are affected by program revenues. Approximately 40 percent of the costs for regular instruction are offset by program revenues, primarily from tuition and fees. The special instruction program also has approximately 41 percent of its costs offset by program revenues, primarily grants restricted for special instruction programs. Again for fiscal year 2016, program revenues provided for the entire cost of the non-instructional services program. This is primarily due to cafeteria sales, and state and federal subsidies and donated commodities for food service. Extracurricular activities costs are supported by music and athletic fees, ticket sales, gate receipts at musical and athletic events.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The General Fund had an increase in fund balance of nearly 18 percent. This is a result of revenues increasing by almost 7 percent (primarily tuition and fees) while expenditures decreased by 7 percent (primarily capital outlay).

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

General Fund Budgeting Highlights

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

During fiscal year 2016, the School District amended its General Fund budget as needed. For revenues, changes from the original budget to the final budget were not significant. There was a 9 percent increase from the final budget to actual revenues, primarily due to tuition and fees (open enrollment increase mentioned previously) and property taxes. For expenditures, there was not a significant change from original budget to the final budget, while final expenditures were 9 percent less than the final budget as a result of conservative budgeting.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the School District had \$1,923,398 invested in capital assets (net of accumulated depreciation). Additions during the fiscal year included technology equipment and a bus. Disposals were minimal. For further information regarding the School District's capital assets, refer to Note 9 to the basic financial statements.

Debt

For fiscal year 2016, long-term obligations consisted of the net pension liability and compensated absences. For further information regarding the School District's long-term obligations, refer to Note 15 to the basic financial statements.

Current Issues

Currently, the School District has three different levies in place. In March 2016, voters approved a four-year emergency levy which generates approximately \$440,000 annually. In May 2015, the voters renewed a three-year emergency levy that generates approximately \$305,000 annually. In May 2014, the voters renewed a five-year 1 percent income tax levy to raise approximately \$760,000 annually. All three levies are used to maintain general operating expenditures incurred by the School District.

The School District accepts open enrollment of students from other school districts. During the 2015/2016 school year, one hundred seventy-six students from other school districts attended Arcadia Local School District under the open enrollment program while only forty-one students left the School District to attend other schools.

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Angie Spridgeon, Treasurer, Arcadia Local School District, 19033 State Route 12, Arcadia, Ohio 44804.

Arcadia Local School District
Statement of Net Position
June 30, 2016

| | Governmental Activities |
|--|----------------------------|
| <u>Assets:</u> | |
| Equity in Pooled Cash and Cash Equivalents | \$5,679,453 |
| Accounts Receivable | 4,756 |
| Accrued Interest Receivable | 7,051 |
| Intergovernmental Receivable | 42,606 |
| Inventory Held for Resale | 3,647 |
| Materials and Supplies Inventory | 5,969 |
| Income Taxes Receivable | 403,984 |
| Property Taxes Receivable | 2,626,181 |
| Nondepreciable Capital Assets | 27,410 |
| Depreciable Capital Assets, Net | 1,895,988 |
| Total Assets | 10,697,045 |
| <u>Deferred Outflows of Resources:</u> | |
| Pension | 861,666 |
| <u>Liabilities:</u> | |
| Accounts Payable | 91,737 |
| Contracts Payable | 14,000 |
| Accrued Wages and Benefits Payable | 457,846 |
| Intergovernmental Payable | 108,360 |
| Long-Term Liabilities: | |
| Due Within One Year | 4,409 |
| Due in More Than One Year | |
| Net Pension Liability | 7,854,045 |
| Other Amounts | 346,500 |
| Total Liabilities | 8,876,897 |
| <u>Deferred Inflows of Resources:</u> | |
| Property Taxes | 2,296,146 |
| Pension | 554,911 |
| Total Deferred Inflows of Resources | 2,851,057 |
| <u>Net Position:</u> | |
| Net Investment in Capital Assets | 1,923,398 |
| Restricted For: | |
| Other Purposes | 163,839 |
| Unrestricted (Deficit) | (2,256,480) |
| Total Net Position (Deficit) | (\$169,243) |

See Accompanying Notes to the Basic Financial Statements

Arcadia Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2016

| | Program Revenues | |
|------------------------------------|-------------------------|---|
| Expenses | Charges for Services | Operating Grants, Contributions, and Interest |
| <u>Governmental Activities:</u> | | |
| Instruction: | | |
| Regular | \$2,957,991 | \$1,067,848 |
| Special | 523,382 | 38,658 |
| Vocational | 264,313 | 0 |
| Support Services: | | |
| Pupils | 265,893 | 0 |
| Instructional Staff | 272,762 | 0 |
| Board of Education | 28,233 | 0 |
| Administration | 560,989 | 0 |
| Fiscal | 273,364 | 0 |
| Operation and Maintenance of Plant | 625,934 | 0 |
| Pupil Transportation | 352,702 | 26,600 |
| Central | 4,233 | 0 |
| Non-Instructional Services | 326,460 | 186,100 |
| Extracurricular Activities | 296,321 | 69,673 |
| Total Governmental Activities | \$6,752,577 | \$1,388,879 |

General Revenues:

Property Taxes Levied for General Purposes
Income Taxes Levied for General Purposes
Grants and Entitlements not Restricted to Specific Programs
Interest
Gifts and Donations
Miscellaneous
Total General Revenues

Change in Net Position

Net Position (Deficit) at Beginning of Year
Net Position (Deficit) at End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Position
Governmental
Activities

(\$1,771,062)
(309,448)
(237,302)

(153,446)
(272,762)
(28,233)
(560,989)
(273,364)
(625,934)
(326,102)
(4,233)
13,702

(217,148)
(4,766,321)

2,549,849
844,950
2,262,335
16,130
23,697
21,119

5,718,080

951,759

(1,121,002)
(\$169,243)

Arcadia Local School District
Balance Sheet
Governmental Funds
June 30, 2016

| | <u>General</u> | <u>Other Governmental</u> | <u>Total Governmental Funds</u> |
|--|--------------------|-------------------------------|---|
| <u>Assets:</u> | | | |
| Equity in Pooled Cash and Cash Equivalents | \$5,476,029 | \$199,859 | \$5,675,888 |
| Accounts Receivable | 4,756 | 0 | 4,756 |
| Accrued Interest Receivable | 7,051 | 0 | 7,051 |
| Intergovernmental Receivable | 718 | 41,888 | 42,606 |
| Inventory Held for Resale | 0 | 3,647 | 3,647 |
| Materials and Supplies Inventory | 5,447 | 522 | 5,969 |
| <u>Restricted Assets:</u> | | | |
| Equity in Pooled Cash and Cash Equivalents | 3,565 | 0 | 3,565 |
| Income Taxes Receivable | 403,984 | 0 | 403,984 |
| Property Taxes Receivable | 2,626,181 | 0 | 2,626,181 |
| Total Assets | <u>\$8,527,731</u> | <u>\$245,916</u> | <u>\$8,773,647</u> |
| <u>Liabilities:</u> | | | |
| Accounts Payable | \$52,094 | \$39,643 | \$91,737 |
| Contracts Payable | 14,000 | 0 | 14,000 |
| Accrued Wages and Benefits Payable | 429,256 | 28,590 | 457,846 |
| Intergovernmental Payable | 105,355 | 3,005 | 108,360 |
| Total Liabilities | <u>600,705</u> | <u>71,238</u> | <u>671,943</u> |
| <u>Deferred Inflows of Resources:</u> | | | |
| Property Taxes | 2,296,146 | 0 | 2,296,146 |
| Unavailable Revenue | 78,246 | 2,065 | 80,311 |
| Total Deferred Inflows of Resources | <u>2,374,392</u> | <u>2,065</u> | <u>2,376,457</u> |
| <u>Fund Balances:</u> | | | |
| Nonspendable | 5,447 | 522 | 5,969 |
| Restricted | 3,565 | 172,091 | 175,656 |
| Assigned | 683,669 | 0 | 683,669 |
| Unassigned | 4,859,953 | 0 | 4,859,953 |
| Total Fund Balances | <u>5,552,634</u> | <u>172,613</u> | <u>5,725,247</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$8,527,731</u> | <u>\$245,916</u> | <u>\$8,773,647</u> |

See Accompanying Notes to the Basic Financial Statements

Arcadia Local School District
 Reconciliation of Total Governmental Fund Balances
 to Net Position of Governmental Activities
 June 30, 2016

| | | |
|--|-------------|-------------|
| Total Governmental Fund Balances | | \$5,725,247 |
| <p>Amounts reported for governmental activities on the statement of net position are different because of the following:</p> | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | 1,923,398 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds. | | |
| Accounts Receivable | 4,505 | |
| Accrued Interest Receivable | 3,536 | |
| Intergovernmental Receivable | 2,065 | |
| Income Taxes Receivable | 40,222 | |
| Delinquent Property Taxes Receivable | 29,983 | |
| | | 80,311 |
| Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds. | | (350,909) |
| The net pension liability is not due and payable in the current period, therefore, the liability and related deferred outflows/inflows are not reported in the governmental funds. | | |
| Deferred Outflows - Pension | 861,666 | |
| Deferred Inflows - Pension | (554,911) | |
| Net Pension Liability | (7,854,045) | |
| | | (7,547,290) |
| Net Position (Deficit) of Governmental Activities | | (\$169,243) |

See Accompanying Notes to the Basic Financial Statements

Arcadia Local School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

| | General | Other Governmental | Total Governmental Funds |
|------------------------------------|--------------------|-----------------------|--------------------------------|
| <u>Revenues:</u> | | | |
| Property Taxes | \$2,552,513 | \$0 | \$2,552,513 |
| Income Taxes | 845,357 | 0 | 845,357 |
| Intergovernmental | 2,413,645 | 434,350 | 2,847,995 |
| Interest | 12,594 | 152 | 12,746 |
| Tuition and Fees | 1,108,193 | 0 | 1,108,193 |
| Extracurricular Activities | 1,918 | 67,755 | 69,673 |
| Charges for Services | 26,600 | 186,100 | 212,700 |
| Gifts and Donations | 23,697 | 9,500 | 33,197 |
| Miscellaneous | 21,119 | 0 | 21,119 |
| Total Revenues | <u>7,005,636</u> | <u>697,857</u> | <u>7,703,493</u> |
| <u>Expenditures:</u> | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 2,927,717 | 94,481 | 3,022,198 |
| Special | 466,921 | 56,173 | 523,094 |
| Vocational | 265,956 | 0 | 265,956 |
| Support Services: | | | |
| Pupils | 148,832 | 112,447 | 261,279 |
| Instructional Staff | 275,540 | 5,400 | 280,940 |
| Board of Education | 28,178 | 0 | 28,178 |
| Administration | 567,631 | 200 | 567,831 |
| Fiscal | 272,436 | 0 | 272,436 |
| Operation and Maintenance of Plant | 609,983 | 0 | 609,983 |
| Pupil Transportation | 402,690 | 0 | 402,690 |
| Central | 4,233 | 0 | 4,233 |
| Non-Instructional Services | 0 | 317,660 | 317,660 |
| Extracurricular Activities | 196,009 | 75,948 | 271,957 |
| Capital Outlay | 8,490 | 0 | 8,490 |
| Total Expenditures | <u>6,174,616</u> | <u>662,309</u> | <u>6,836,925</u> |
| Changes in Fund Balances | 831,020 | 35,548 | 866,568 |
| Fund Balances at Beginning of Year | 4,721,614 | 137,065 | 4,858,679 |
| Fund Balances at End of Year | <u>\$5,552,634</u> | <u>\$172,613</u> | <u>\$5,725,247</u> |

See Accompanying Notes to the Basic Financial Statements

Arcadia Local School District
 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
 of Governmental Funds to Statement of Activities
 For the Fiscal Year Ended June 30, 2016

Changes in Fund Balances - Total Governmental Funds \$866,568

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current fiscal year.

| | | |
|---|---------------|--------|
| Capital Outlay - Depreciable Capital Assets | 137,216 | |
| Depreciation | (107,046) | |
| | <u>30,170</u> | 30,170 |

The cost of capital assets is removed from the capital asset account on the statement of net position when disposed of resulting in a loss on disposal of capital assets on the statement of activities. (517)

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.

| | | |
|---------------------------|------------|-----|
| Delinquent Property Taxes | (2,664) | |
| Income Taxes | (407) | |
| Intergovernmental | 2,065 | |
| Interest | 3,536 | |
| Tuition and Fees | (1,687) | |
| | <u>843</u> | 843 |

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (10,394)

Except for amounts reported as deferred outflows/inflows, changes in the net pension liability are reported as pension expense on the statement of activities. (398,227)

Contractually required contributions are reported as expenditures in the governmental funds, however, the statement of net position reports these amounts as deferred outflows and deferred inflows or a reduction of the liability. 463,316

Change in Net Position of Governmental Activities \$951,759

See Accompanying Notes to the Basic Financial Statements

Arcadia Local School District
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2016

| | Budgeted Amounts | | Actual | Variance with Final Budget Over (Under) |
|---|--------------------|--------------------|--------------------|--|
| | Original | Final | | |
| <u>Revenues:</u> | | | | |
| Property Taxes | \$2,467,496 | \$2,540,191 | \$2,628,074 | \$87,883 |
| Income Taxes | 793,036 | 793,036 | 800,089 | 7,053 |
| Intergovernmental | 2,122,170 | 2,122,170 | 2,413,270 | 291,100 |
| Interest | 6,000 | 6,000 | 10,560 | 4,560 |
| Tuition and Fees | 910,480 | 910,480 | 1,108,125 | 197,645 |
| Extracurricular Activities | 1,500 | 3,000 | 2,132 | (868) |
| Charges for Services | 20,000 | 20,000 | 26,600 | 6,600 |
| Gifts and Donations | 38,700 | 38,700 | 23,757 | (14,943) |
| Miscellaneous | 4,000 | 4,000 | 13,788 | 9,788 |
| Total Revenues | <u>6,363,382</u> | <u>6,437,577</u> | <u>7,026,395</u> | <u>588,818</u> |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 3,157,869 | 3,082,270 | 2,924,715 | 157,555 |
| Special | 516,502 | 516,502 | 466,578 | 49,924 |
| Vocational | 300,068 | 350,068 | 267,146 | 82,922 |
| Support Services: | | | | |
| Pupils | 128,035 | 128,035 | 145,818 | (17,783) |
| Instructional Staff | 225,216 | 225,216 | 279,874 | (54,658) |
| Board of Education | 37,165 | 37,165 | 29,202 | 7,963 |
| Administration | 626,373 | 626,373 | 633,648 | (7,275) |
| Fiscal | 248,435 | 248,435 | 273,172 | (24,737) |
| Operation and Maintenance of Plant | 734,885 | 834,885 | 674,944 | 159,941 |
| Pupil Transportation | 521,505 | 521,505 | 406,863 | 114,642 |
| Central | 5,000 | 5,000 | 4,233 | 767 |
| Extracurricular Activities | 356,930 | 225,543 | 196,038 | 29,505 |
| Capital Outlay | 140,000 | 271,387 | 131,039 | 140,348 |
| Total Expenditures | <u>6,997,983</u> | <u>7,072,384</u> | <u>6,433,270</u> | <u>639,114</u> |
| Excess of Revenues Over (Under) Expenditures | (634,601) | (634,807) | 593,125 | 1,227,932 |
| <u>Other Financing Sources (Uses):</u> | | | | |
| Refund of Prior Year Expenditures | 10,000 | 10,000 | 6,925 | (3,075) |
| Changes in Fund Balance | (624,601) | (624,807) | 600,050 | 1,224,857 |
| Fund Balance at Beginning of Year | 4,539,661 | 4,539,661 | 4,539,661 | 0 |
| Prior Year Encumbrances Appropriated | 222,557 | 222,557 | 222,557 | 0 |
| Fund Balance at End of Year | <u>\$4,137,617</u> | <u>\$4,137,411</u> | <u>\$5,362,268</u> | <u>\$1,224,857</u> |

See Accompanying Notes to the Basic Financial Statements

Arcadia Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2016

| | |
|--|------------------------|
| <u>Assets:</u> | |
| Equity in Pooled Cash and Cash Equivalents | <u><u>\$73,162</u></u> |
| <u>Liabilities:</u> | |
| Undistributed Assets | \$2,440 |
| Due to Students | <u>70,722</u> |
| Total Liabilities | <u><u>\$73,162</u></u> |

See Accompanying Notes to the Basic Financial Statements

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

Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1937. The School District serves an area of approximately sixty-one square miles. It is located in Hancock and Seneca Counties. It is staffed by twenty-eight classified employees, forty certified teaching personnel, and five administrative employees who provide services to six hundred four students and other community members. The School District currently operates an elementary/middle/high school.

Reporting Entity

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

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

The School District participates in four jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, Millstream Career and Technology Center, Hancock County Local Professional Development Committee, Northwestern Ohio Educational Research Council, Inc., Schools of Ohio Risk Sharing Authority, Hancock County Schools Health Benefit Fund, and the Ohio School Boards Association Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 18 and 19 to the basic financial statements.

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

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of Arcadia Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental activities (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). However, the School District has no business-type activities.

The statement of net position presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants, contributions, and interest that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental 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.

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

Note 2 - Summary of Significant Accounting Policies (continued)

B. Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions of the School District are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities and deferred inflows of resources is reported as fund balance. The School District's only major governmental fund is the General Fund.

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District did not have any trust funds in fiscal year 2016. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various non-instructional staff-related and student-managed activities.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

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

Note 2 - Summary of Significant Accounting Policies (continued)

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting and the agency funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, recording of deferred outflows and deferred inflows of resources, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions

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

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

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: property taxes available as an advance, income taxes, grants, interest, tuition, student fees, and charges for services.

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

Note 2 - Summary of Significant Accounting Policies (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension and explained in Note 12 to the basic financial statements.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources includes property taxes, unavailable revenue, and pension. Property taxes represent amounts for which there was an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. This amount has been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes accrued interest, intergovernmental revenue including grants, income taxes, delinquent property taxes, and other sources. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available. For further details on unavailable revenue, refer to the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities on page 17. Deferred inflows of resources related to pension are reported on the government-wide statement of net position and explained in Note 12 to the basic financial statements.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the alternative tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The alternative tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control is at the fund level for all funds. Budgetary allocations at the function and object level within all funds are made by the School District Treasurer.

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

Note 2 - Summary of Significant Accounting Policies (continued)

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

The appropriations resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations 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.

F. Cash and Investments

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

During fiscal year 2016, the School District invested in negotiable certificates of deposit and mutual funds. Investments are reported at fair value which is based on quoted market price or current share price.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2016 was \$12,594, which includes \$329 assigned from other School District funds.

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

G. Inventory

Inventory is presented at cost on a first-in, first-out basis and is expensed/expensed when used. Inventory consists of administrative supplies, custodial supplies, donated and purchased food, and workbooks.

H. 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 externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions. Restricted assets in the General Fund consists of unexpended revenues restricted for the purchase of school buses.

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

Note 2 - Summary of Significant Accounting Policies (continued)

I. Capital Assets

All of the School District's capital assets are general capital assets generally resulting from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net position but are not reported on the fund financial statements.

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their acquisition value on the date donated. The School District maintains a capitalization threshold of one thousand dollars. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

| Description | Useful Lives |
|-------------------------------------|----------------|
| Land Improvements | 20 - 100 years |
| Buildings and Building Improvements | 25 - 100 years |
| Furniture, Fixtures, and Equipment | 5 - 60 years |
| Vehicles | 15 - 30 years |

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after ten years of service.

K. Accrued Liabilities and Long-Term Obligations

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, net pension liability and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year.

L. Net Position

Net position represents the difference between all other elements on the statement of financial position. Net investment in capital assets consists of capital assets net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources restricted for food service operations, music and athletic programs, and federal and state grants.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

M. Fund Balance

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

Nonspendable - The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

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

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

Assigned - Amounts in the assigned classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assigned amounts represent intended uses established by the Board of Education. The Board of Education has authorized the Treasurer to assign fund balance for purchases on order provided those amounts have been lawfully appropriated. The Board of Education has also assigned fund balance to cover a gap between estimated resources and appropriations in the fiscal year 2017 budget. Certain resources have also been assigned for other educational activities.

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

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

N. Pensions

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

O. Estimates

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

Note 3 - Change in Accounting Principles

For fiscal year 2016, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 76, "Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", and GASB Statement No. 82, "Pension Issues-an Amendment of GASB Statements No. 67, No. 69, and No. 73".

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

Note 3 - Change in Accounting Principles (continued)

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the School District's fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 76 identifies, in the context of the current governmental financial reporting environment, the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this statement did not result in any changes to the School District's financial statements.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the School District's fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

Note 4 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed, or assigned fund balance (GAAP basis).

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

Note 4 - Budgetary Basis of Accounting (continued)

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

| Changes in Fund Balance | |
|--|-----------|
| GAAP Basis | \$831,020 |
| <u>Increase (Decrease) Due To:</u> | |
| Revenue Accruals: | |
| Accrued FY 2015, Received in Cash FY 2016 | 694,884 |
| Accrued FY 2016, Not Yet Received in Cash | (668,298) |
| Expenditure Accruals: | |
| Accrued FY 2015, Paid in Cash FY 2016 | (740,371) |
| Accrued FY 2016, Not Yet Paid in Cash | 600,705 |
| Cash Adjustments: | |
| Unrecorded Activity 2016 | 1,098 |
| Materials and Supplies Inventory | (564) |
| Encumbrances Outstanding at Fiscal Year End (Budget Basis) | (118,424) |
| Budget Basis | \$600,050 |

Note 5 - Deposits and Investments

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

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

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

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

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

Note 5 - Deposits and Investments (continued)

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio and, with certain limitations, bonds and other obligations of political subdivisions of the State of Ohio;
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);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Bankers' acceptances and commercial paper if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School 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 for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$790,988 of the School District's bank balance of \$2,810,289 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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

Note 5 - Deposits and Investments (continued)

The School District has no deposit policy for custodial 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 School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Investments

Investments are reported at fair value. As of June 30, 2016, the School District had the following investments:

| Measurement/Investment | Measurement Amount | Maturity |
|------------------------------------|-----------------------|-----------|
| Fair Value | | |
| Negotiable Certificates of Deposit | \$99,021 | 11/10/16 |
| Negotiable Certificates of Deposit | 250,215 | 5/3/17 |
| Negotiable Certificates of Deposit | 494,846 | 6/1/17 |
| Negotiable Certificates of Deposit | 250,398 | 1/4/18 |
| Negotiable Certificates of Deposit | 250,722 | 5/11/18 |
| Negotiable Certificates of Deposit | 246,872 | 7/2/18 |
| Negotiable Certificates of Deposit | 203,858 | 9/4/18 |
| Negotiable Certificates of Deposit | 246,480 | 3/29/19 |
| Negotiable Certificates of Deposit | 251,362 | 4/29/19 |
| Negotiable Certificates of Deposit | 197,852 | 5/13/19 |
| Mutual Funds | 5,769 | 45 days |
| Net Value Per Share | | |
| Star Ohio | 500,493 | 48.6 days |
| Total Investments | \$2,997,888 | |

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the School District's recurring fair value measurements as of June 30, 2016. All of the School District's investments measured at fair value are valued using quoted market prices (Level 1 inputs).

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the School District.

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

Note 5 - Deposits and Investments (continued)

The negotiable certificates of deposit are covered by FDIC and/or SIPC insurance. The mutual fund carries a rating of AAA by Moody's. STAR Ohio carries a rating of AAA by Standard and Poor's. The School District has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that no-load money market mutual funds must be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service and STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

The School District places no limit on the amount it may invest in any one issuer or investment type. The following table indicates the percentage of investments to the School District's total portfolio:

| | Fair Value | Percentage of Portfolio |
|------------------------------------|-------------|----------------------------|
| Negotiable Certificates of Deposit | \$2,491,626 | 83.1% |

Note 6 - Receivables

Receivables at June 30, 2016, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except income taxes and property taxes, are expected to be collected within one year. Income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

| | Amount |
|-------------------------------------|----------|
| General Fund | |
| Medicaid | \$375 |
| Miscellaneous | 343 |
| Total General Fund | 718 |
| Other Governmental Funds | |
| Title I | 3,390 |
| REAP | 38,498 |
| Total Other Governmental Funds | 41,888 |
| Total Intergovernmental Receivables | \$42,606 |

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

Note 7 - Income Taxes

The School District levies a voted tax of 1 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2005, and is currently due to expire in 2019. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

Note 8 - Property Taxes

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

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

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

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

Accrued property taxes receivable represents real and public utility property taxes which were measurable as of June 30, 2016, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations and are reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources - property taxes.

The amount available as an advance at June 30, 2016, was \$300,052 in the General Fund. The amount available as an advance at June 30, 2015, was \$375,613 in the General Fund.

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

Note 8 - Property Taxes (continued)

Collectible delinquent property taxes have been recorded as a receivable and revenue on an accrual basis. On a modified accrual basis, the revenue has been recorded as deferred inflows of resources - unavailable revenue.

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

| | 2015 First- Half Collections | | 2016 First- Half Collections | |
|---|---------------------------------|-------------|---------------------------------|-------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential | \$78,687,860 | 78.94% | \$79,265,910 | 75.20% |
| Industrial/Commercial | 7,939,310 | 7.96 | 7,023,050 | 6.66 |
| Public Utility | 13,057,200 | 13.10 | 19,117,220 | 18.14 |
| Total Assessed Value | <u>\$99,684,370</u> | <u>100%</u> | <u>\$105,406,180</u> | <u>100%</u> |
| Tax rate per \$1,000 of assessed valuation | \$30.15 | | \$29.77 | |

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

| | Balance at 6/30/15 | Additions | Reductions | Balance at 6/30/16 |
|--|-----------------------|------------------|-----------------|-----------------------|
| Governmental Activities | | | | |
| Nondepreciable Capital Assets | | | | |
| Land | \$27,410 | \$0 | \$0 | \$27,410 |
| Depreciable Capital Assets | | | | |
| Land Improvements | 203,359 | 0 | 0 | 203,359 |
| Buildings and Building Improvements | 1,605,779 | 0 | 0 | 1,605,779 |
| Furniture, Fixtures, and Equipment | 896,378 | 47,550 | (11,314) | 932,614 |
| Vehicles | 720,374 | 89,666 | 0 | 810,040 |
| Total Depreciable Capital Assets | <u>3,425,890</u> | <u>137,216</u> | <u>(11,314)</u> | <u>3,551,792</u> |
| Less Accumulated Depreciation | | | | |
| Land Improvements | (61,383) | (4,596) | 0 | (65,979) |
| Buildings and Building Improvements | (580,568) | (31,876) | 0 | (612,444) |
| Furniture, Fixtures, and Equipment | (592,587) | (35,095) | 10,797 | (616,885) |
| Vehicles | (325,017) | (35,479) | 0 | (360,496) |
| Total Accumulated Depreciation | <u>(1,559,555)</u> | <u>(107,046)</u> | <u>10,797</u> | <u>(1,655,804)</u> |
| Depreciable Capital Assets, Net | <u>1,866,335</u> | <u>30,170</u> | <u>(517)</u> | <u>1,895,988</u> |
| Governmental Activities Capital Assets, Net | <u>\$1,893,745</u> | <u>\$30,170</u> | <u>(\$517)</u> | <u>\$1,923,398</u> |

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

Note 9 - Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

| | |
|------------------------------------|------------------|
| Instruction: | |
| Regular | \$12,148 |
| Special | 288 |
| Vocational | 940 |
| Support Services: | |
| Pupils | 159 |
| Instructional Staff | 409 |
| Administration | 1,218 |
| Fiscal | 346 |
| Operation and Maintenance of Plant | 20,080 |
| Pupil Transportation | 35,795 |
| Non-Instructional Services | 9,575 |
| Extracurricular Activities | 26,088 |
| Total Depreciation Expense | <u>\$107,046</u> |

Note 10 - Risk Management

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

Coverage provided through Schools of Ohio Risk Sharing Authority is as follows:

| | |
|-----------------------------------|--------------|
| Building and Contents | \$20,705,070 |
| General School District Liability | |
| Per Occurrence | 5,000,000 |
| Aggregate | 7,000,000 |
| Automobile Liability | 5,000,000 |
| Excess Liability | 10,000,000 |

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

For fiscal year 2016, the School District participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with the SORSA for insurance coverage and pays annual premiums to the SORSA based on the types and limits of coverage and deductibles selected by the participant.

The School District participates in the Hancock County Schools Health Benefit Fund (Fund), a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Developmental Disabilities. The School District pays monthly premiums to the Fund for employee medical, dental, and life insurance benefits. The Fund is responsible for the management and operations of the program. Upon withdrawal from the Fund, a participant is responsible for the payment of all Fund liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

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

Note 10 - Risk Management (continued)

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

Note 11 - Other Purchase Commitments

At fiscal year end, the amount of significant encumbrances expected to be honored upon performance by the vendor in fiscal year 2017 are as follows:

| | |
|--------------------------|-------------------------|
| General Fund | \$118,424 |
| Other Governmental Funds | 38,498 |
| Total | <u><u>\$156,922</u></u> |

Note 12 - Defined Benefit Pension Plans

Net Pension Liability

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

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

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

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

Note 12 - Defined Benefit Pension Plans (continued)

GASB Statement No. 68 assumes the liability is solely the obligation of the employer because (1) they benefit from employee services and (2) State statute requires all funding to come from the employers. All contributions to date have come solely from the employer (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within thirty years. If the amortization period exceeds thirty years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows.

| | Eligible to retire on or before August 1, 2017 * | Eligible to retire on or after August 1, 2017 |
|------------------------------|--|---|
| Full Benefits | Any age with 30 years of service credit | Age 67 with 10 years of service credit; 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; Age 60 with 25 years of service credit |

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

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

One year after an effective benefit date, a benefit recipient is entitled to a 3 percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

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

Note 12 - Defined Benefit Pension Plans (continued)

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

The School District's contractually required contribution to SERS was \$113,295 for fiscal year 2016. Of this amount, \$19,376 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

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

The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by 2 percent of the original base benefit. For members retiring August 1, 2013, or later, the first 2 percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age sixty with five years of qualifying service credit, at age fifty-five with twenty-five years of service credit, or thirty years of service credit regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age sixty with thirty-five years of service or age sixty-five with five years of service on August 1, 2026.

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

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

Note 12 - Defined Benefit Pension Plans (continued)

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

New members who choose the DCP or CP will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's CP account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB Statement No. 68 reporting purposes.

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

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

The School District's contractually required contribution to STRS was \$350,021 for fiscal year 2016. Of this amount, \$62,160 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

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

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

Note 12 - Defined Benefit Pension Plans (continued)

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

| | SERS | STRS | Total |
|--|----------------------|--------------------|-------------|
| Proportion of the Net Pension Liability | | | |
| Prior Measurement Date | 0.02366800% | 0.02334174% | |
| Proportion of the Net Pension Liability | | | |
| Current Measurement Date | 0.02555420% | 0.02314245% | |
| Change in Proportionate Share | <u>(0.00188620%)</u> | <u>0.00019929%</u> | |
| Proportionate Share of the Net Pension Liability | \$1,458,148 | \$6,395,897 | \$7,854,045 |
| Pension Expense | \$119,039 | \$279,188 | \$398,227 |

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

| | SERS | STRS | Total |
|--|------------------|------------------|------------------|
| Deferred Outflows of Resources | | | |
| Differences Between Expected and Actual Experience | \$23,479 | \$291,572 | \$315,051 |
| Changes in Proportionate Share and Difference Between School District Contributions and Proportionate Share of Contributions | 83,299 | 0 | 83,299 |
| School District Contributions Subsequent to the Measurement Date | 113,295 | 350,021 | 463,316 |
| Total Deferred Outflows of Resources | <u>\$220,073</u> | <u>\$641,593</u> | <u>\$861,666</u> |
| Deferred Inflows of Resources | | | |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | \$48,313 | \$459,986 | \$508,299 |
| Changes in Proportionate Share and Difference Between School District Contributions and Proportionate Share of Contributions | 0 | 46,612 | 46,612 |
| Total Deferred Inflows of Resources | <u>\$48,313</u> | <u>\$506,598</u> | <u>\$554,911</u> |

\$463,316 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows.

| | SERS | STRS | Total |
|----------------------------|-----------------|--------------------|--------------------|
| Fiscal Year Ended June 30, | | | |
| 2017 | \$9,068 | (\$115,457) | (\$106,389) |
| 2018 | 9,068 | (115,457) | (106,389) |
| 2019 | 8,957 | (115,457) | (106,500) |
| 2020 | 31,372 | 131,345 | 162,717 |
| Total | <u>\$58,465</u> | <u>(\$215,026)</u> | <u>(\$156,561)</u> |

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

Note 12 - Defined Benefit Pension Plans (continued)

Actuarial Assumptions - SERS

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

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

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

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

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

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

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

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

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

Note 12 - Defined Benefit Pension Plans (continued)

The target allocation and the long-term expected real rate of return for each major asset class are summarized in the following table.

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|------------------------|-------------------|--|
| Cash | 1.00% | 0.00% |
| U.S. Stocks | 22.50 | 5.00 |
| Non-U.S. Stocks | 22.50 | 5.50 |
| Fixed Income | 19.00 | 1.50 |
| Private Equity | 10.00 | 10.00 |
| Real Assets | 10.00 | 5.00 |
| Multi-Asset Strategies | 15.00 | 7.50 |
| Total | <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 earnings were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| School District's Proportionate Share of the Net Pension Liability | \$2,021,926 | \$1,458,148 | \$983,399 |

Changes Between Measurement Date and Report Date

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

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

Note 12 - Defined Benefit Pension Plans (continued)

Actuarial Assumptions - STRS

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

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022-Scale AA) for males and females. Males ages are set back two years through age eighty-nine and no set back for age ninety and above. Females younger than age eighty are set back four years, one year set back from age eighty through eighty-nine, and no set back from age ninety and above.

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

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

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

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.50 percent.

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

Note 12 - Defined Benefit Pension Plans (continued)

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

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

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|------------------------|-------------------------------------|------------------------|
| School District's Proportionate Share of the Net Pension Liability | \$8,884,382 | \$6,395,897 | \$4,291,510 |

Changes Between Measurement Date and Report Date

In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall increase to the School District's net pension liability is expected to be significant.

Social Security

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

Note 13 - Postemployment Benefits

School Employees Retirement System (SERS)

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. State statute provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2016, the School District's surcharge obligation was \$13,560.

The School District's contribution for health care for the fiscal years ended June 30, 2016, 2015, and 2014 was \$0, \$6,308, \$763, respectively. The full amount has been contributed for all three fiscal years.

State Teachers Retirement System (STRS)

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

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

Note 13 - Postemployment Benefits (continued)

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the health care plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the health care plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2016, and June 30, 2015, STRS did not allocate any employer contributions to postemployment health care. For the fiscal year ended June 30, 2014, 1 percent of covered payroll was allocated to postemployment health care. The School District's contribution for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$23,790 respectively. The full amount has been contributed for all three fiscal years.

Note 14 - Other Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days for both classified and certified employees. Upon retirement, payment is made for three-tenths of the accrued but unused sick leave credit to a maximum of sixty days for both classified and certified employees.

B. Health Care Benefits

The School District provides medical, dental, and vision insurance to all employees through the Hancock County Schools Health Benefit Fund. The School District offers life insurance to all employees through the Ohio Schools Council. Depending upon the plan chosen, the employees share the cost of monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

C. Separation Benefits

The School District provides a separation benefit to eligible certified employees. An employee that gives written notice of retirement by December 15 will receive a \$1,000 payment.

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

Note 15 - Long-Term Obligations

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

| | Balance at 6/30/15 | Additions | Reductions | Balance at 6/30/16 | Amounts Due Within One Year |
|-------------------------------|-----------------------|--------------------|-----------------|-----------------------|--------------------------------------|
| Governmental Activities | | | | | |
| General Long-Term Obligations | | | | | |
| Net Pension Liability | | | | | |
| SERS | \$1,197,825 | \$260,323 | \$0 | \$1,458,148 | \$0 |
| STRS | 5,677,517 | 718,380 | 0 | 6,395,897 | 0 |
| Total Net Pension Liability | 6,875,342 | 978,703 | 0 | 7,854,045 | 0 |
| Compensated Absences Payable | 340,515 | 73,948 | 63,554 | 350,909 | 4,409 |
| Total Long-Term Obligations | <u>\$7,215,857</u> | <u>\$1,052,651</u> | <u>\$63,554</u> | <u>\$8,204,954</u> | <u>\$4,409</u> |

The School District pays obligations related to employee compensation from the fund benefitting from their service. For additional information related to the net pension liability, see Note 12 to the basic financial statements.

Compensated absences will be paid from the General Fund and the Food Service special revenue fund.

The School District's overall debt margin was \$7,788,602 with an unvoted debt margin of \$86,540 at June 30, 2016.

Note 16 - Set Asides

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

The following cash basis information identifies the change in the fund balance reserve for capital improvements during fiscal year 2016.

| | Capital Improvements |
|------------------------------------|-------------------------|
| Balance June 30, 2015 | \$0 |
| Current Year Set Aside Requirement | 98,695 |
| Qualifying Expenditures | (98,695) |
| Reserve Balance June 30, 2016 | <u>\$0</u> |

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

Note 17 - Fund Balance

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

| Fund Balance | General | Other Governmental | Total Governmental Funds |
|---------------------------|-------------|-----------------------|--------------------------------|
| Nonspendable for: | | | |
| Materials and Supplies | | | |
| Inventory | \$5,447 | \$522 | \$5,969 |
| Restricted for: | | | |
| Athletics and Music | 0 | 23,451 | 23,451 |
| Bus Purchase | 3,565 | 0 | 3,565 |
| Emergency Management | | | |
| Information Systems | 0 | 12,220 | 12,220 |
| Facilities Maintenance | 0 | 464 | 464 |
| Food Service Operations | 0 | 82,222 | 82,222 |
| Inventory Held for Resale | 0 | 3,647 | 3,647 |
| Regular Instruction | 0 | 2,024 | 2,024 |
| Remedial Reading | 0 | 23,064 | 23,064 |
| Special Needs Children | 0 | 3,651 | 3,651 |
| Technology Improvement | 0 | 21,348 | 21,348 |
| Total Restricted | 3,565 | 172,091 | 175,656 |
| Assigned for: | | | |
| Educational Activities | 21,070 | 0 | 21,070 |
| Projected Budget Shortage | 609,157 | 0 | 609,157 |
| Unpaid Obligations | 53,442 | 0 | 53,442 |
| Total Assigned | 683,669 | 0 | 683,669 |
| Unassigned | 4,859,953 | 0 | 4,859,953 |
| Total Fund Balance | \$5,552,634 | \$172,613 | \$5,725,247 |

Note 18 - Jointly Governed Organizations

A. Northwest Ohio Area Computer Services Cooperative

The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta. 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 NOACSC consists of two representatives from each county. During fiscal year 2016, the School District paid \$33,911 to NOACSC for various services. Financial information can be obtained from NOACSC, 645 South Main Street, Lima, Ohio 45804.

B. Millstream Career and Technology Center

The Millstream Career and Technology Center (Center) is a distinct political subdivision of the State of Ohio established under Section 3313.90 of the Ohio Revised Code. The Center provides vocational instruction to students. The Center operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative appointed by the Findlay City School District. The Treasurers from the Hancock and Putnam County Educational Service Centers serve in an ex-officio capacity for all meetings. Financial information can be obtained from the Findlay City School District, 1219 West Main Cross, Suite 101, Findlay, Ohio 45840-3377.

C. Hancock County Local Professional Development Committee

The Hancock County Local Professional Development Committee (HCLPDC) was established in 1999 to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The HCLPDC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its members. The HCLPDC is governed by a thirteen member Executive Board. Financial information can be obtained from the Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

D. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools, and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., 441 East Market Street, Celina, Ohio 45822.

Note 19 - Insurance Pools

A. Schools of Ohio Risk Sharing Authority

The School District participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an incorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. SORSA's business and affairs are conducted by a board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishing agreements between SORSA and its members. Financial information can be obtained from Willis Pooling, 775 Yard Street, Suite 200, Grandview Heights, Ohio 43212.

B. Hancock County Schools Health Benefit Fund

The Hancock County Schools Health Benefit Fund is a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Developmental Disabilities. The Plan is a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, vision, and life insurance benefits to the employees of the participants. Each participants' superintendent is appointed to an Administrative Committee which advises the consultant concerning aspects of the administration of the Plan.

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Fund is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Neace Lukens, 285 Cozzins Street, Columbus, Ohio 43215.

C. Ohio School Boards Association Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool.

The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the GRP. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

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

Note 20 - Contingencies

A. Grants

The School 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2016.

B. School Foundation

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

C. Litigation

There are currently no matters in litigation with the School District as defendant.

Arcadia Local School District
 Required Supplementary Information
 Schedule of the School District's Proportionate Share of the Net Pension Liability
 School Employees Retirement System of Ohio
 Last Three Fiscal Years (1)

| | 2016 | 2015 | 2014 |
|--|-------------|-------------|-------------|
| School District's Proportion of the Net Pension Liability | 0.02555420% | 0.02366800% | 0.02366800% |
| School District's Proportionate Share of the Net Pension Liability | \$1,458,148 | \$1,197,825 | \$1,407,460 |
| School District's Covered Employee Payroll | \$769,317 | \$545,191 | \$566,176 |
| School District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll | 189.54% | 219.71% | 248.59% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 69.16% | 71.70% | 65.52% |

(1) Information prior to 2014 is not available.

Amounts presented as of the School District's measurement date which is the prior fiscal year end.

Arcadia Local School District
 Required Supplementary Information
 Schedule of the School District's Proportionate Share of the Net Pension Liability
 State Teachers Retirement System of Ohio
 Last Three Fiscal Years (1)

| | 2016 | 2015 | 2014 |
|--|-------------|-------------|-------------|
| School District's Proportion of the Net Pension Liability | 0.02314245% | 0.02334174% | 0.02334174% |
| School District's Proportionate Share of the Net Pension Liability | \$6,395,897 | \$5,677,517 | \$6,763,023 |
| School District's Covered Employee Payroll | \$2,439,193 | \$2,379,023 | \$2,457,846 |
| School District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll | 262.21% | 238.65% | 275.16% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 72.10% | 74.70% | 69.30% |

(1) Information prior to 2014 is not available.

Amounts presented as of the School District's measurement date which is the prior fiscal year end.

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Arcadia Local School District
Required Supplementary Information
Schedule of the School District's Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|------------------|------------------|-----------------|-----------------|
| Contractually Required Contribution | \$113,295 | \$101,396 | \$71,420 | \$74,169 |
| Contributions in Relation to the Contractually Required Contribution | <u>(113,295)</u> | <u>(101,396)</u> | <u>(71,420)</u> | <u>(74,169)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| School District Covered Employee Payroll | \$809,250 | \$769,317 | \$545,191 | \$566,176 |
| Contributions as a Percentage of Covered Employee Payroll | 14.00% | 13.18% | 13.10% | 13.10% |

| <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| \$78,349 | \$70,694 | \$72,239 | \$60,850 | \$62,145 | \$68,833 |
| <u>(78,349)</u> | <u>(70,694)</u> | <u>(72,239)</u> | <u>(60,850)</u> | <u>(62,145)</u> | <u>(68,833)</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$616,921 | \$598,594 | \$565,250 | \$669,417 | \$678,439 | \$644,504 |
| 12.70% | 11.81% | 12.78% | 9.09% | 9.16% | 10.68% |

Arcadia Local School District
 Required Supplementary Information
 Schedule of the School District's Contributions
 State Teachers Retirement System of Ohio
 Last Ten Fiscal Years

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|------------------|------------------|------------------|------------------|
| Contractually Required Contribution | \$350,021 | \$341,487 | \$309,273 | \$319,520 |
| Contributions in Relation to the Contractually Required Contribution | <u>(350,021)</u> | <u>(341,487)</u> | <u>(309,273)</u> | <u>(319,520)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| School District Covered Employee Payroll | \$2,500,150 | \$2,439,193 | \$2,379,023 | \$2,457,846 |
| Contributions as a Percentage of Covered Employee Payroll | 14.00% | 14.00% | 13.00% | 13.00% |

| <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$306,280 | \$317,682 | \$323,630 | \$330,607 | \$328,650 | \$314,410 |
| <u>(306,280)</u> | <u>(317,682)</u> | <u>(323,630)</u> | <u>(330,607)</u> | <u>(328,650)</u> | <u>(314,410)</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$2,356,000 | \$2,443,708 | \$2,489,462 | \$2,543,131 | \$2,528,077 | \$2,418,538 |
| 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |

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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*

Arcadia Local School District
Hancock County
19033 State Route 12
Arcadia, Ohio 44804-9714

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Arcadia Local School District, Hancock County, Ohio (the District) as of and for the years ended June 30, 2017 and 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 May 31, 2018.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

May 31, 2018



Dave Yost • Auditor of State

ARCADIA LOCAL SCHOOL DISTRICT

HANCOCK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 19, 2018