



Dave Yost • Auditor of State

**EATON COMMUNITY SCHOOL DISTRICT
PREBLE COUNTY**

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EATON COMMUNITY SCHOOL DISTRICT
PREBLE COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Eaton Community School District
Preble County
304 Eaton Lewisburg Road
Eaton, Ohio 45320

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the modified cash accounting basis Note 1 describes. This responsibility includes determining that the modified cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Eaton Community School District, Preble County, Ohio, as of June 30, 2016, and the respective changes in modified cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 1.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 1 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the modified cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplemental Information

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

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

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

Other Information

We applied no procedures to Management's Discussion & Analysis or to the schedules of net pension liabilities and pension contributions as listed in the table of contents. Accordingly, we express no opinion or any other assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

March 24, 2017

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EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016***

Unaudited

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

FINANCIAL HIGHLIGHTS

Key financial highlights for 2016 are as follows:

- ❑ In total, net position increased \$2,070,095. Net position of governmental activities increased \$2,017,591, which represents a 14.5% increase from 2015. Net position of business-type activities increased \$52,504 or 22.4% from 2015.
- ❑ General receipts accounted for \$25,012,478 or 91.2% of all receipts for governmental activities. Program specific receipts in the form of charges for services and grants and contributions accounted for \$2,405,903 or 8.8% of total governmental receipts of \$27,418,381.
- ❑ The District had \$25,400,790 in disbursements related to governmental activities; \$2,405,903 of these disbursements were offset by program specific charges for services and operating grants or contributions. General receipts of \$25,012,478 were adequate to provide for these programs.
- ❑ Among major funds, the General Fund had \$22,069,253 in receipts and \$20,911,354 in disbursements. The General Fund's fund balance increased \$1,407,448 to \$11,054,467.
- ❑ Net position for the enterprise fund increased \$65,297.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the District's modified cash basis of accounting.

Report Components

The statement of net position and the statement of activities provide information about the modified cash activities of the District as a whole. Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns. The notes to the financial statements are an integral part of the District's government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016***

Unaudited

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid. As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Government-Wide Statements

The statement of net position and the statement of activities reflect how the District did financially during 2016, within the limitations of modified cash basis accounting. The statement of net position presents the cash balances and investments of the governmental activities of the District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts and interest are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the District's general receipts. These statements report the District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the District's financial health. Over time, increases or decreases in the District's cash position is one indicator of whether the District's financial health is improving or deteriorating. When evaluating the District's financial condition, you should also consider other nonfinancial factors as well such as the District's property tax base, the condition of the District's capital assets, the extent of the District's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes.

The government-wide financial statements of the District are divided into two categories:

Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the costs of the goods or services provided. The District's food service fund is reported as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016**

Unaudited

Governmental Funds – Most of the District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the District's programs. The District's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary Funds – When the District charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. When the services are provided to other departments of the District, the service is reported as an internal service fund.

Fiduciary Funds – The District is the trustee, or fiduciary, for various student managed activity programs, various scholarship programs and other items listed as agency. It is also responsible for other assets that, due to a trust arrangement can only be used for the trust beneficiaries. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

The following table provides a summary of the District's net position for fiscal year 2016 compared to 2015.

	Governmental		Business-type		Total	
	Activities		Activities			
	2016	2015	2016	2015	2016	2015
Cash and Investments	\$15,966,753	\$13,949,162	\$286,629	\$234,125	\$16,253,382	\$14,183,287
Total assets	15,966,753	13,949,162	286,629	234,125	16,253,382	14,183,287
Net position						
Restricted	6,022,589	5,706,934	0	0	6,022,589	5,706,934
Unrestricted	9,944,164	8,242,228	286,629	234,125	10,230,793	8,476,353
Total net position	\$15,966,753	\$13,949,162	\$286,629	\$234,125	\$16,253,382	\$14,183,287

The District's net position increased 15%. The largest contributing factor to this change is an increase in property tax receipts and State funding. The government-wide unrestricted net position of \$10,230,793 may be used to meet the District's ongoing obligations to citizens and creditors.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016**

Unaudited

Changes in Net Position – The following table shows the changes in net position for fiscal year 2016 compared to 2015:

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Receipts						
Program Receipts:						
Charges for Services and Sales	\$722,304	\$566,420	\$352,165	\$371,171	\$1,074,469	\$937,591
Operating Grants and Contributions	1,683,099	1,419,008	517,426	511,058	2,200,525	1,930,066
Capital Grants and Contributions	500	728,490	0	0	500	728,490
Total Program Receipts	2,405,903	2,713,918	869,591	882,229	3,275,494	3,596,147
General revenues:						
Property Taxes	8,523,844	7,887,568	0	0	8,523,844	7,887,568
Income Taxes	4,258,527	4,247,710	0	0	4,258,527	4,247,710
Grants and Entitlements	11,719,147	10,975,072	0	0	11,719,147	10,975,072
Refunding Bonds Issued	0	3,760,000	0	0	0	3,760,000
Premium on Refunding Bonds	0	182,953	0	0	0	182,953
Other	510,960	367,911	0	0	510,960	367,911
Total General Receipts	25,012,478	27,421,214	0	0	25,012,478	27,421,214
Total Receipts	27,418,381	30,135,132	869,591	882,229	28,287,972	31,017,361
Program Disbursements						
Instruction	13,029,927	13,345,551	0	0	13,029,927	13,345,551
Support Services:						
Pupils	1,269,018	1,250,165	0	0	1,269,018	1,250,165
Instructional Staff	359,661	385,534	0	0	359,661	385,534
Board of Education	30,708	21,531	0	0	30,708	21,531
Administration	1,891,205	1,895,022	0	0	1,891,205	1,895,022
Fiscal Services	799,395	729,035	0	0	799,395	729,035
Operation and Maintenance of Plant	2,152,914	2,038,698	0	0	2,152,914	2,038,698
Pupil Transportation	1,359,944	1,356,199	0	0	1,359,944	1,356,199
Central	297,803	249,364	0	0	297,803	249,364
Non-Instructional Services	2,308	3,106	0	0	2,308	3,106
Extracurricular Activities	727,740	706,484	0	0	727,740	706,484
Capital Outlay	641,896	2,735,669	0	0	641,896	2,735,669
Debt Service:						
Principal	1,540,000	1,595,000	0	0	1,540,000	1,595,000
Interest and Fiscal Charges	1,298,271	1,287,011	0	0	1,298,271	1,287,011
Bond Issuance Costs	0	107,933	0	0	0	107,933
Payment to Refunded Bond Escrow Ager	0	3,831,864	0	0	0	3,831,864
Food Service	0	0	817,087	857,487	817,087	857,487
Total Disbursements	25,400,790	31,538,166	817,087	857,487	26,217,877	32,395,653
Total Change in Net Position	2,017,591	(1,403,034)	52,504	24,742	2,070,095	(1,378,292)
Beginning Net Position	13,949,162	15,352,196	234,125	209,383	14,183,287	15,561,579
Ending Net Position	\$15,966,753	\$13,949,162	\$286,629	\$234,125	\$16,253,382	\$14,183,287

Governmental Activities

Net position of the District's governmental activities increased \$2,017,591. An increase in charges for services can be attributed to an increase in tuition received from other districts as well as receipts for school activities. Funding received in the prior year from the Ohio School Facilities Commission for the construction of two new school buildings resulted in the subsequent decrease in capital grants in the current fiscal year. The completion of this construction project also resulted in a substantial decrease in capital outlay disbursements. An increase in grants and entitlements is the result of an increase in funding from the State. An increase in property tax values resulted in the increase in property taxes.

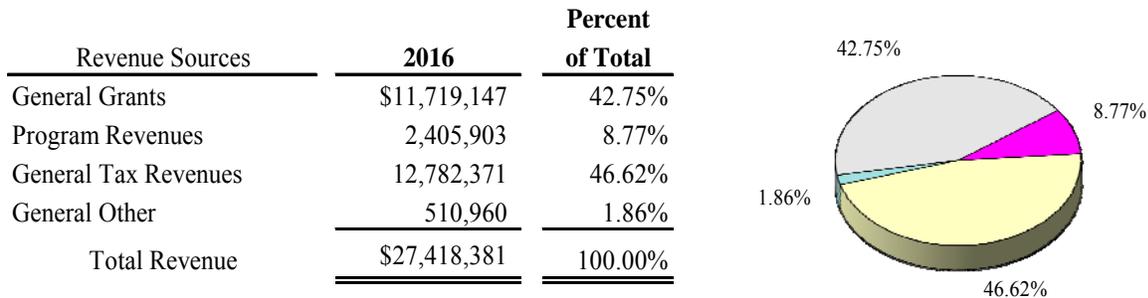
EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016***

Unaudited

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. In general, the overall revenue generated by the levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00. However, the assessed millage for the District has already been reduced to the 20 mill floor. Consequently, the District will receive some increased revenues as property values increase with reappraisals.

Property and income taxes made up 46.62% of receipts for governmental activities for Eaton Community Schools in fiscal year 2016. The District's reliance upon tax receipts is demonstrated by the following graph:



Business-Type Activities

Net position of the business-type activities increased \$52,504. This 22% increase in net position is the result of a reduction in disbursements for advances to other funds and for materials and supplies.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

The District's governmental funds reported a combined fund balance of \$15,884,786, which is above last year's balance of \$13,879,988. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2016 and 2015.

	<u>Fund Balance June 30, 2016</u>	<u>Fund Balance June 30, 2015</u>	<u>Increase (Decrease)</u>
General	\$11,054,467	\$9,647,019	\$1,407,448
Bond Retirement	3,935,494	3,397,474	538,020
Other Governmental	894,825	835,495	59,330
Total	<u>\$15,884,786</u>	<u>\$13,879,988</u>	<u>\$2,004,798</u>

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016***

Unaudited

General Fund – The District's General Fund balance change was due to many factors. The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2016	2015	Increase
	Receipts	Receipts	(Decrease)
Taxes	\$9,973,006	\$9,501,150	\$471,856
Tuition	268,632	172,393	96,239
Transportation Fees	0	1,936	(1,936)
Investment Earnings	88,920	63,835	25,085
Extracurricular Activities	30,788	32,477	(1,689)
Class Materials and Fees	55,188	62,327	(7,139)
Intermediate Sources	0	28,849	(28,849)
Intergovernmental - State	11,141,173	10,461,546	679,627
Intergovernmental - Federal	102,166	101,618	548
Contributions and Donations	21,258	4,013	17,245
All Other Revenue	388,122	269,924	118,198
Total	\$22,069,253	\$20,700,068	\$1,369,185

General Fund receipts in 2016 increased 6.6%. This increase is the result of an increase in funding from the State as well as property tax receipts. An increase in property values resulted in the increase in property taxes.

	2016	2015	Increase
	Disbursements	Disbursements	(Decrease)
Instruction	\$11,946,368	\$12,311,142	(\$364,774)
Supporting Services:			
Pupils	1,259,683	1,244,537	15,146
Instructional Staff	329,735	379,139	(49,404)
Board of Education	30,708	21,531	9,177
Administration	1,852,551	1,849,715	2,836
Fiscal Services	719,601	650,479	69,122
Operation and Maintenance of Plant	2,082,438	1,961,775	120,663
Pupil Transportation	1,341,115	1,346,784	(5,669)
Central	281,771	248,548	33,223
Non-Instructional Services	2,308	3,106	(798)
Extracurricular Activities	417,314	414,308	3,006
Capital Outlay	527,809	341,248	186,561
Debt Service			
Interest and Fiscal Charges	119,953	119,953	0
Total	\$20,911,354	\$20,892,265	\$19,089

General Fund disbursements remained stable in fiscal year 2016, increasing \$19,089 or less than 1%.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016***

Unaudited

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

During the course of fiscal year 2016, the District amended its General Fund budget several times. Final budgeted and actual budget basis receipts were 24% higher than original estimates due to an increase in property tax receipts as well as funding from the State. Original, final and actual budget basis disbursements were not materially different.

Bond Retirement Fund - The District's Bond Retirement Fund balance increased \$538,020, or 15.8%. Increased tax collections designated for the Bond Retirement Fund led to this increase.

DEBT ADMINISTRATION

At June 30, 2016, the District had \$34.2 million in bonds outstanding, \$1,515,308 due within one year. The following table summarizes the District's debt outstanding as of June 30, 2016:

	<u>2016</u>	<u>2015</u>
Governmental Activities:		
General Obligation Bonds:		
Serial Bonds	\$18,880,000	\$19,450,000
Term Bonds	5,995,000	5,995,000
Capital Appreciation Bonds	641,510	963,899
Premium	997,042	1,076,100
Total General Obligation Bonds	<u>26,513,552</u>	<u>27,484,999</u>
Interest Accretion	2,584,920	2,705,823
Qualified School Construction Bonds	<u>5,110,000</u>	<u>5,110,000</u>
Total Governmental Activities	<u><u>\$34,208,472</u></u>	<u><u>\$35,300,822</u></u>

Under current state statutes, the District's general obligation bonded debt issues are subject to a legal limitation based on 9% of the total assessed value of real and personal property. At June 30, 2016, the District's outstanding debt was below the legal limit. Additional information on the District's long-term debt can be found in Note 11.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016***

Unaudited

ECONOMIC FACTORS

The District received significant donations from the community for partial construction of a new auditorium.

Through donations to the Athletic Arts and Wellness at Eaton National Bank (now LCNB) and the St Clair Foundation, the District was able to complete Phase I of the new Athletic, Arts and Wellness complex. Donations came in to Eaton National Bank (now LCNB) for Phase II which included construction of a baseball field and softball diamonds and has been completed.

The Eaton Community School District's management has committed itself to financial prudence in the years to come.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Rachel Tait, Treasurer of Eaton Community School District.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Statement of Net Position – Modified Cash Basis June 30, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Cash and Cash Equivalents	\$ 3,525,774	\$ 286,629	\$ 3,812,403
Investments	10,580,430	0	10,580,430
Restricted Assets:			
Cash and Cash Equivalents	682,564	0	682,564
Investments	1,177,985	0	1,177,985
Total Assets	<u>15,966,753</u>	<u>286,629</u>	<u>16,253,382</u>
Net Position:			
Restricted For:			
Debt Service	4,603,048	0	4,603,048
Other Purposes	1,419,541	0	1,419,541
Unrestricted	9,944,164	286,629	10,230,793
Total Net Position	<u>\$ 15,966,753</u>	<u>\$ 286,629</u>	<u>\$ 16,253,382</u>

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Statement of Activities – Modified Cash Basis For the Fiscal Year Ended June 30, 2016

	Cash Disbursements	Program Cash Receipts		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 13,029,927	\$ 323,820	\$ 1,228,495	\$ 0
Support Services:				
Pupils	1,269,018	0	3,624	0
Instructional Staff	359,661	0	22,652	0
Board of Education	30,708	0	0	0
Administration	1,891,205	0	19,100	0
Fiscal Services	799,395	0	0	0
Operation and Maintenance of Plant	2,152,914	41,704	402,028	0
Pupil Transportation	1,359,944	0	0	0
Central	297,803	0	7,200	0
Non-Instructional Services	2,308	0	0	0
Extracurricular Activities	727,740	356,780	0	0
Capital Outlay	641,896	0	0	500
Debt Service:				
Principal Retirement	1,540,000	0	0	0
Interest and Fiscal Charges	1,298,271	0	0	0
Total Governmental Activities	25,400,790	722,304	1,683,099	500
Business-Type Activities:				
Food Service	817,087	352,165	517,426	0
Total Business-Type Activities	817,087	352,165	517,426	0
Totals	\$ 26,217,877	\$ 1,074,469	\$ 2,200,525	\$ 500

General Cash Receipts

Property Taxes Levied for:

 General Purposes

 Special Revenue

 Debt Service

Income Taxes

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Cash Receipts

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Net (Disbursements) Receipts and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
\$ (11,477,612)	\$ 0	\$ (11,477,612)
(1,265,394)	0	(1,265,394)
(337,009)	0	(337,009)
(30,708)	0	(30,708)
(1,872,105)	0	(1,872,105)
(799,395)	0	(799,395)
(1,709,182)	0	(1,709,182)
(1,359,944)	0	(1,359,944)
(290,603)	0	(290,603)
(2,308)	0	(2,308)
(370,960)	0	(370,960)
(641,396)	0	(641,396)
(1,540,000)	0	(1,540,000)
(1,298,271)	0	(1,298,271)
<u>(22,994,887)</u>	<u>0</u>	<u>(22,994,887)</u>
<u>0</u>	<u>52,504</u>	<u>52,504</u>
<u>0</u>	<u>52,504</u>	<u>52,504</u>
<u>\$ (22,994,887)</u>	<u>\$ 52,504</u>	<u>\$ (22,942,383)</u>
5,714,479	0	5,714,479
124,778	0	124,778
2,684,587	0	2,684,587
4,258,527	0	4,258,527
11,719,147	0	11,719,147
95,857	0	95,857
415,103	0	415,103
<u>25,012,478</u>	<u>0</u>	<u>25,012,478</u>
2,017,591	52,504	2,070,095
13,949,162	234,125	14,183,287
<u>\$ 15,966,753</u>	<u>\$ 286,629</u>	<u>\$ 16,253,382</u>

EATON COMMUNITY SCHOOL DISTRICT, OHIO

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

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and Cash Equivalents	\$ 1,886,841	\$ 662,141	\$ 894,825	\$ 3,443,807
Investments	7,831,987	2,748,443	0	10,580,430
Restricted Assets:				
Cash and Cash Equivalents	677,392	5,172	0	682,564
Investments	658,247	519,738	0	1,177,985
Total Assets	\$ 11,054,467	\$ 3,935,494	\$ 894,825	\$ 15,884,786
Fund Balances:				
Restricted	1,335,967	3,935,494	751,128	6,022,589
Committed	539,668	0	143,697	683,365
Assigned	596,145	0	0	596,145
Unassigned	8,582,687	0	0	8,582,687
Total Fund Balances	11,054,467	3,935,494	894,825	15,884,786
Total Fund Balances	\$ 11,054,467	\$ 3,935,494	\$ 894,825	\$ 15,884,786

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities – Modified Cash Basis June 30, 2016

Total Governmental Fund Balances	\$ 15,884,786
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*Amounts reported for governmental activities in the
statement of net position are different because*

The internal service funds are used by management to charge the costs of services to individual funds. The cash and cash equivalents of the internal service funds are included in governmental activities in the statement of net position.

81,967

Net Position of Governmental Activities

<u>\$ 15,966,753</u>

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

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

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Receipts:				
Taxes	\$ 9,973,006	\$ 2,684,587	\$ 124,778	\$ 12,782,371
Tuition	268,632	0	0	268,632
Investment Earnings	88,920	6,937	0	95,857
Extracurricular Activities	30,788	0	325,992	356,780
Class Materials and Fees	55,188	0	0	55,188
Intergovernmental - State	11,141,173	490,575	52,489	11,684,237
Intergovernmental - Federal	102,166	145,824	1,067,991	1,315,981
Contributions and Donations	21,258	0	23,361	44,619
All Other Receipts	388,122	0	23,532	411,654
Total Receipts	22,069,253	3,327,923	1,618,143	27,015,319
Disbursements:				
Current:				
Instruction	11,946,368	0	975,460	12,921,828
Supporting Services:				
Pupils	1,259,683	0	3,624	1,263,307
Instructional Staff	329,735	0	22,652	352,387
Board of Education	30,708	0	0	30,708
Administration	1,852,551	0	19,100	1,871,651
Fiscal Services	719,601	71,585	3,314	794,500
Operation and Maintenance of Plant	2,082,438	0	50,895	2,133,333
Pupil Transportation	1,341,115	0	0	1,341,115
Central	281,771	0	14,400	296,171
Non-Instructional Services	2,308	0	0	2,308
Extracurricular Activities	417,314	0	308,794	726,108
Capital Outlay	527,809	0	114,087	641,896
Debt Service:				
Principal Retirement	0	1,540,000	0	1,540,000
Interest and Fiscal Charges	119,953	1,178,318	0	1,298,271
Total Disbursements	20,911,354	2,789,903	1,512,326	25,213,583
Excess (Deficiency) of Receipts Over Disbursements	1,157,899	538,020	105,817	1,801,736

EATON COMMUNITY SCHOOL DISTRICT, OHIO

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses):				
Sale of Capital Assets	1,034	0	0	1,034
Insurance Proceeds	402,028	0	0	402,028
Transfers In	0	0	58,500	58,500
Transfers Out	(258,500)	0	0	(258,500)
Advances In	104,987	0	0	104,987
Advances Out	0	0	(104,987)	(104,987)
Total Other Financing Sources (Uses)	249,549	0	(46,487)	203,062
Net Change in Fund Balance	1,407,448	538,020	59,330	2,004,798
Fund Balances at Beginning of Year	9,647,019	3,397,474	835,495	13,879,988
Fund Balances End of Year	\$ 11,054,467	\$ 3,935,494	\$ 894,825	\$ 15,884,786

See accompanying notes to the basic financial statements

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EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Reconciliation of the Statement of Receipts, Disbursements and
Changes in Fund Balances of Governmental Funds
To the Statement of Activities – Modified Cash Basis
For the Fiscal Year Ended June 30, 2016***

Net Change in Fund Balances - Total Governmental Funds \$ 2,004,798

*Amounts reported for governmental activities in the statement of
activities are different because*

The internal service funds, which are used by management to charge the costs of services to individual funds, are not included in the statement of activities. Governmental fund disbursements and related internal service fund revenues are eliminated. The net receipts (disbursements) of the internal service funds are allocated among the governmental activities.

12,793

Change in Net Position of Governmental Activities

\$ 2,017,591

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Receipts:				
Local Sources:				
Taxes	\$ 8,067,365	\$ 9,973,006	\$ 9,973,006	\$ 0
Tuition	217,302	268,632	268,632	0
Investment Earnings	61,937	76,568	88,920	12,352
Extracurricular Activities	788	974	974	0
Class Material and Fees	44,643	55,188	55,188	0
Intergovernmental - State	9,012,319	11,141,173	11,141,173	0
Intergovernmental - Federal	82,644	102,166	102,166	0
All Other Receipts	294,251	363,758	363,762	4
Total Receipts	17,781,249	21,981,465	21,993,821	12,356
Disbursements:				
Current:				
Instruction	11,250,102	12,233,860	12,033,819	200,041
Support Services:				
Pupils	1,195,024	1,299,522	1,299,521	1
Instructional Staff	305,979	332,735	332,735	0
Board of Education	28,239	30,708	30,708	0
Administration	1,685,427	1,832,808	1,832,808	0
Fiscal Services	665,435	723,624	723,624	0
Operation and Maintenance of Plant	2,200,573	2,393,000	2,392,999	1
Pupil Transportation	1,237,741	1,345,975	1,345,975	0
Central	283,337	308,113	308,113	0
Non-Instructional Services	2,122	2,308	2,308	0
Extracurricular Activities	391,129	425,331	425,331	0
Capital Outlay	923,476	1,004,229	1,004,229	0
Debt Service:				
Principal Retirement	124,144	135,000	0	135,000
Interest and Fiscal Charges	110,307	119,953	119,953	0
Total Disbursements	20,403,035	22,187,166	21,852,123	335,043
Excess (Deficiency) of Receipts Over (Under) Disbursements	(2,621,786)	(205,701)	141,698	347,399

EATON COMMUNITY SCHOOL DISTRICT, OHIO

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Other Financing Sources (Uses):				
Proceeds from the Sale of Capital Assets	1,254	1,034	1,034	0
Insurance Proceeds	14,077	402,028	402,028	0
Transfers In	725,770	1,009,692	1,009,692	0
Transfers Out	(1,019,024)	(1,268,192)	(1,268,192)	0
Advances In	577,133	104,987	104,987	0
Advances Out	(123,740)	0	0	0
Total Other Financing Sources (Uses):	175,470	249,549	249,549	0
Net Change in Fund Balance	(2,446,316)	43,848	391,247	347,399
Fund Balance at Beginning of Year	9,374,620	9,374,620	9,374,620	0
Prior Year Encumbrances	208,678	208,678	208,678	0
Fund Balance at End of Year	\$ 7,136,982	\$ 9,627,146	\$ 9,974,545	\$ 347,399

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

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

	Business-Type Activities Enterprise Funds	Governmental Activities - Internal Service Fund
	<u>Food Service</u>	<u>Fund</u>
Assets:		
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 317,163	\$ 51,433
Total Assets	<u>317,163</u>	<u>51,433</u>
Net Position:		
Unrestricted	317,163	51,433
Total Net Position	<u>\$ 317,163</u>	<u>\$ 51,433</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.	<u>(30,534)</u>	
Total Net Position of Business Type Activities	<u>\$ 286,629</u>	

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Statement of Receipts, Disbursements and Changes in Fund Net Position – Modified Cash Basis

Proprietary Fundu

For the Fiscal Year Ended June 30, 2016

	Business-Type Activities Enterprise Funds			Governmental Activities - Internal Service Fund
	Food Service			
Operating Receipts:				
Sales	\$ 352,105		\$	0
Total Operating Receipts	352,105			0
Operating Disbursements:				
Salaries and Wages	299,055			0
Fringe Benefits	156,343			0
Contractual Services	11,054			0
Supplies and Materials	337,080			0
Other Operating Disbursements	762			200,000
Total Operating Disbursements	804,294			200,000
Operating Loss	(452,189)			(200,000)
Nonoperating Receipts (Disbursements):				
Grants	517,426			0
Investment Earnings	60			0
Total Nonoperating Receipts (Disbursements)	517,486			0
Income (Loss) before Transfers	65,297			(200,000)
Transfers In	0			200,000
Change in Net Position	65,297			0
Net Position Beginning of Year	251,866			51,433
Net Position End of Year	\$ 317,163			\$ 51,433
Change in Net Position of Enterprise Funds	\$ 65,297			
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.	(12,793)			
Change in Net Position of Business Type Activities	\$ 52,504			

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Statement of Net Position – Modified Cash Basis
Fiduciary Funds
June 30, 2016

	Private Purpose Trust Funds	Agency Funds	Total
Assets:			
Cash and Cash Equivalents	\$ 50,752	\$ 70,718	\$ 121,470
Total Assets	<u>50,752</u>	<u>70,718</u>	<u>121,470</u>
Net Position:			
Held in Trust for Scholarships	50,752	0	50,752
Held on Behalf of:			
Others	0	14,114	14,114
Students	0	56,604	56,604
Total Net Position	<u>\$ 50,752</u>	<u>\$ 70,718</u>	<u>\$ 121,470</u>

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Statement of Changes in Net Position – Modified Cash Basis
Fiduciary Fund
For the Fiscal Year Ended June 30, 2016**

	<u>Private Purpose Trust Funds</u>
Additions:	
Contributions:	
Private Donations	\$ 1,062
Total Contributions	<u>1,062</u>
Investment Earnings:	
Interest	<u>11</u>
Total Additions	<u>1,073</u>
Deductions:	
Administrative Expenses	479
Community Gifts, Awards and Scholarships	<u>1,250</u>
Total Deductions	<u>1,729</u>
Change in Net Position	(656)
Net Position at Beginning of Year	<u>51,408</u>
Net Position End of Year	<u>\$ 50,752</u>

See accompanying notes to the basic financial statements

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Eaton Community School District, Ohio (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District is governed by a locally elected five member Board of Education (the Board) which provides educational services. The Board controls the District's instructional support facilities staffed by approximately 97 non-certified and approximately 133 certified teaching personnel and 8 administrative employees providing education to 2,164 students.

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

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

Eaton Community School District participates in three jointly governed organizations, the Southwestern Ohio Computer Association (SWOCA), the Southwestern Ohio Educational Purchasing Council (SOEPC) and the Educational Regional Service System (ERSS). SWOCA provides the data processing services needed by the participating school districts. Butler Tech serves as the fiscal agent. SOEPC obtains prices for quality merchandise and services for participating school districts. ERSS provides support services to improve student achievement. See Note 14 for additional information.

As discussed further in the Basis of Accounting Portion of this note, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. The following is a summary of its significant accounting policies.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting

The accounting system is organized and operated on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts. The various funds are summarized by type in the basic financial statements.

The following fund types are used by the District:

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

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

Bond Retirement Fund - This fund is used for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

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

Proprietary Funds - The District classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as either enterprise funds or internal service funds.

Enterprise Fund - This fund is used to account for food service operations for which a fee is charged to external users for goods or services.

Internal Service Fund Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the District on a cost reimbursement basis. The District's only internal service fund, the Employee Benefits HRA Fund, accounts for the accumulation and allocation of costs associated with the employee Health Reimbursement Account plan.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Fiduciary Funds – Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary 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 District under a trust agreement for individuals, private organizations or other governments and therefore not available to support the District's own programs. The District's two trust funds are private-purpose trusts that account for scholarship programs for students. The agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operation. The District's agency funds account for various student-managed activity programs and the District's Section 125 Cafeteria Plan.

C. Basis of Presentation – Financial Statements

The 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 District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid “doubling up” receipts and disbursements. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

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

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

The District's financial statements are prepared using the modified cash basis of accounting. Receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

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

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation resolution, all of which are prepared on the basis of budgeting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however, only the General Fund is required to be reported. The primary level of budgetary control is at the fund level. Supplemental budgetary modifications may only be made by resolution of the Board of Education.

1. Tax Budget

By January 15, the Superintendent and Treasurer submit an annual operating budget for the following fiscal year to the Board of Education for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year for the period July 1 to June 30 of the following fiscal year.

2. Estimated Resources

Prior to March 15, the Board accepts by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that the total contemplated disbursements from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during fiscal year 2016.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Appropriations

A temporary appropriation measure to control disbursements may be passed on or about July 1 of each year for the period July 1 through September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 through June 30. The appropriation resolution establishes spending controls at the fund level. The appropriation resolution may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year with approval of the Board. During the year, several supplemental appropriations were necessary to budget the use of contingency funds. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Statement of Receipts, Disbursements, and Changes in Fund Balances-Budget and Actual" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

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EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

5. Basis of Budgeting

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

	Net Change in Fund Balance
	General Fund
Cash Basis (as reported)	\$1,407,448
Perspective Difference- Budgeted Special Revenue Funds reclassified as General Fund	(11,340)
Encumbrances Outstanding	(1,004,861)
Budget Basis	<u>\$391,247</u>

F. Cash and Cash Equivalents

During fiscal year 2016, cash and cash equivalents included amounts in demand deposits, commercial paper with original maturities of three months or less, and the State Treasury Asset Reserve (STAR Ohio). STAR Ohio is a very liquid investment and is reported as a cash equivalent in the basic financial statements. The District also invests in STAR Plus, a federally insured cash account powered by the Federally Insured Cash Account (FICA) program. STAR Plus enables political subdivisions to generate a competitive yield on cash deposits in a network of carefully selected FDIC-insured banks via a single, convenient account. All deposits with STAR Plus have full FDIC insurance, with no term commitment on deposits. The District pools its cash for investment and resource management purposes. See Note 5, “Cash, Cash Equivalents and Investments.”

G. Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Investments (Continued)

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. During fiscal year 2016, investment purchases were limited to certificates of deposit, STAR Ohio and federal agency securities. The District records all its investments at cost except for STAR Ohio. See Note 5, "Cash, Cash Equivalents and Investments."

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

H. Inventory and Prepaid Items

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

I. Capital Assets

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

J. Long-Term Obligations

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

K. Accumulated Leave

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

L. Net Position

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Fund Balance

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

Nonspendable - The nonspendable fund balance category 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” criterion includes items that are not expected to be converted to cash.

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

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the District Board of Education.

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

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursements for employer contributions to cost-sharing pension plans when they are paid. The employer contributions include portions for pension benefits and for postretirement health care benefits.

O. Pension Plans

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

P. Interfund Receivables/Payable

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

Q. Interfund Transactions

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

R. Restricted Assets

Restricted assets in the General Fund and Bond Retirement Fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by statute to be set-aside by the District for the acquisition of capital assets and by debt covenants for a sinking fund.

S. Operating Receipts and Disbursements

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE

For 2016, the District implemented GASB Statement No. 72, “*Fair Value Measurement and Application*”, and GASB Statement No. 79, “*Certain External Investment Pools and Pool Participants*.”

Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants.

The implementation of these GASB Statements had no impact on beginning of year fund balance/net position.

NOTE 3 - COMPLIANCE

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

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EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 4 – FUND BALANCES

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

<u>Fund Balances</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Restricted:				
Capital Acquisition	\$668,086	\$0	\$0	\$668,086
Career Tech	327	0	0	327
Classroom Facilities Maintenance	0	0	609,065	609,065
Extracurricular Activities	0	0	125,474	125,474
Race to the Top	0	0	9,871	9,871
Special Education	0	0	6,718	6,718
Debt Service Payments	667,554	3,935,494	0	4,603,048
Total Restricted	<u>1,335,967</u>	<u>3,935,494</u>	<u>751,128</u>	<u>6,022,589</u>
Committed:				
Textbook and Instruction Support	539,668	0	0	539,668
Capital Improvements	0	0	143,697	143,697
Total Committed	<u>539,668</u>	<u>0</u>	<u>143,697</u>	<u>683,365</u>
Assigned:				
Encumbrances	390,603	0	0	390,603
Debt Service Payments	205,542	0	0	205,542
Total Assigned	<u>596,145</u>	<u>0</u>	<u>0</u>	<u>596,145</u>
Unassigned	8,582,687	0	0	8,582,687
Total Fund Balances	<u>\$11,054,467</u>	<u>\$3,935,494</u>	<u>\$894,825</u>	<u>\$15,884,786</u>

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 5 – CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments.

Statutes require the classification of funds held by the District into three categories. Category 1 consists of “active” funds - those funds required to be kept in a “cash” or “near cash” status for immediate use by the District. Such funds must be maintained either as cash in the District Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016***

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of District cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the District places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the District's deposits was \$3,998,136 and the bank balance was \$4,119,201. Not included in the bank balance is \$500, which represents cash on hand held by the District. Federal Depository Insurance covered \$587,300 of the bank balance and \$3,531,901 was uninsured. Of the remaining uninsured bank balance, the District was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's collateral pool not in the District's name	<u>\$3,531,901</u>
Total Balance	<u><u>\$3,531,901</u></u>

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Investments

The District's investments at June 30, 2016 were as follows:

	Fair Value	Credit Rating	Concentration of Credit Risk	Investment Maturities (in Years)		
				less than 1	1-3 years	3-5 years
STAR Ohio	\$78,611	AAA ^m ²	0.64%	\$78,611	\$0	\$0
FHLB Note	1,558,219 ^a	Aaa ¹ , AA ⁺ ²	12.59%	568,376	364,843	625,000
FFCB Notes	1,346,100	Aaa ¹ , AA ⁺ ²	10.88%	0	0	1,346,100
FNMA Note	1,011,926	Aaa ¹ , AA ⁺ ²	8.18%	0	521,926	490,000
FHLMC Note	230,268	Aaa ¹ , AA ⁺ ²	1.86%	0	0	230,268
Marketable CD's	2,302,344	AAA ³	18.60%	0	741,383	1,560,961
Bank Commercial Paper	5,849,248	P-1 ¹ , A-1 ⁺ ²	47.25%	5,849,248	0	0
Total Investments	\$12,376,716		100.00%	\$6,496,235	\$1,628,152	\$4,252,329

¹ Moody's Investor Service

² Standard & Poor's

³ All are fully FDIC insured and therefore have an implied AAA credit rating

^a A \$625,000 FHLB Note is callable on March 30, 2017

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of settlement date. The District has no policy that limits investment purchases beyond the requirements of the Ohio Revised Code.

Investment Credit Risk – The District has no investment policy that limits its investment choices other than the limitation of State statute for “interim” funds described previously.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in one issuer. The allocation of investments is detailed in the table above.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District. The District has no policy on custodial credit risk and is governed by Ohio Revised Code as described under Deposits.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016***

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per Financial Statements	\$4,616,437	\$11,758,415
Commercial Paper (with maturities of less than 3 months)	(539,690)	539,690
STAR Ohio	(78,611)	78,611
Per GASB Statement No. 3	<u>\$3,998,136</u>	<u>\$12,376,716</u>

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EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 6 - PROPERTY TAXES

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

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

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

The District receives property taxes from Preble County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent. The assessed values upon which the fiscal year 2016 receipts were based are:

	2015 Second Half Collections	2016 First Half Collections
Agricultural/Residential and Other Real Estate	\$304,548,030	\$309,064,270
Public Utility Personal	9,268,740	9,279,880
Total Assessed Value	<u>\$313,816,770</u>	<u>\$318,344,150</u>
Tax rate per \$1,000 of assessed valuation	\$43.20	\$42.60

NOTE 7 - INCOME TAXES

The District levies a voted tax of 1.5 percent for general operations on the income of residents and of estates. The tax was effective in 1993 and 0.75 percent will expire on December 31, 2020. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are recorded in the General Fund.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

NOTE 8 - INTERFUND ACTIVITY

A. Transfers

Following is a summary of operating transfers in and out for all funds for fiscal year 2016:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$0	\$258,500
Nonmajor Governmental Funds	58,500	0
Internal Service Fund	200,000	0
Total All Funds	<u>\$258,500</u>	<u>\$258,500</u>

Transfers from the General Fund were used to provide additional resources for the nonmajor governmental funds and the internal service fund.

B. Advances

Following is a summary of advances in and out for all funds at June 30, 2016:

	<u>Advances In</u>	<u>Advances Out</u>
General Fund	\$104,987	\$0
Nonmajor Governmental Funds	0	104,987
Totals	<u>\$104,987</u>	<u>\$104,987</u>

Advances are used to temporarily provide operating resources to funds with the expectation the resources will be repaid once monies are available in the funds receiving the advance.

NOTE 9- DEFINED BENEFIT PENSION PLANS

All of the District's full-time employees participate in one of two separate retirement systems which are cost-sharing, multiple-employer defined benefit pension plans.

Net Pension Liability - The net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below. 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.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 9- DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$5,677,338	\$22,023,372	\$27,700,710
Proportion of the Net Pension Liability	0.099496%	0.079688%	

A. School Employee Retirement System

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

NOTE 9- DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employee Retirement System (Continued)

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14.00 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District’s contractually required contribution to SERS was \$424,227 for fiscal year 2016.

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 9- DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employee Retirement System (Continued)

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

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

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

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

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

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

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

NOTE 9- DEFINED BENEFIT PENSION PLANS (Continued)

A. School Employee Retirement System (Continued)

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

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

Changes Between Measurement Date and Report Date

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

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School District's proportionate share of the net pension liability	\$7,872,428	\$5,677,338	\$3,828,892

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 9- DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

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

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

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

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016***

NOTE 9- DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2015, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$1,200,084 for fiscal year 2016.

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 9- DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (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 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

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

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

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

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

NOTE 9- DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$30,592,124	\$22,023,372	\$14,777,213

NOTE 10 - POSTEMPLOYMENT BENEFITS

A. School Employee Retirement System

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

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

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 10 - POSTEMPLOYMENT BENEFITS (Continued)

A. School Employee Retirement System (Continued)

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2016, no percentage 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 (\$23,000 for 2016), pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge.

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.

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$42,827, \$70,407, and \$47,248 respectively; which were equal to the required contributions for each year.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2016, this actuarially required allocation was 0.22 percent of covered payroll. The District's contributions for Medicare Part B for the fiscal years ended June 30, 2016, 2015, and 2014 were \$2, \$22,130, and \$20,808 respectively; which y gtg equal to the required contributions for each year.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2016, STRS Ohio allocated employer contributions equal to zero percent of covered payroll to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$80,879 respectively; which were equal to the required contributions for each year.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

NOTE 11 - LONG-TERM DEBT OBLIGATIONS

Detail of the changes in the bonds of the District for the year ended June 30, 2016 is as follows:

		Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016	Amount Due Within One Year
Governmental Activities:						
General Obligation Bonds:						
2002	School Improvement					
	Capital Appreciation Bonds	8.26%	\$628,899	\$0	(\$322,389)	\$306,510
2007	School Improvement Refunding Series					
	Serial Bonds		16,320,000	0	(150,000)	16,170,000
	Term Bonds		5,995,000	0	0	5,995,000
	Capital Appreciation Bonds		335,000	0	0	335,000
	Premium on Bond Refunding		911,442	0	(60,763)	850,679
	Net 2007 Refunding Bonds		<u>23,561,442</u>	<u>0</u>	<u>(210,763)</u>	<u>23,350,679</u>
2014	School Improvement Refunding Series					
	Serial Bonds	1.00-4.00%	3,130,000	0	(420,000)	2,710,000
	Premium on Bond Refunding		164,658	0	(18,295)	146,363
	Net 2014 Refunding Bonds		<u>3,294,658</u>	<u>0</u>	<u>(438,295)</u>	<u>2,856,363</u>
	Total General Obligation Bonds		<u>27,484,999</u>	<u>0</u>	<u>(971,447)</u>	<u>26,513,552</u>
2002	Interest Accretion	8.26%	1,188,220	113,189	(647,611)	653,798
2007	Interest Accretion	8.26%	1,517,603	413,519	0	1,931,122
	Total Interest Accretion		<u>2,705,823</u>	<u>526,708</u>	<u>(647,611)</u>	<u>2,584,920</u>
Qualified School Construction Bonds:						
2011	School Improvement	5.39%	3,080,000	0	0	3,080,000
2011	School Energy Conservation Improvement	5.909%	2,030,000	0	0	2,030,000
	Total Governmental Activities		<u>\$35,300,822</u>	<u>\$526,708</u>	<u>(\$1,619,058)</u>	<u>\$34,208,472</u>

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EATON COMMUNITY SCHOOL DISTRICT, OHIO

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016**

NOTE 11 - LONG-TERM DEBT OBLIGATIONS (Continued)

A. Principal and Interest Requirements

A summary of the District's future long-term debt funding requirements, including principal and interest payments as of June 30, 2016 follows:

Years	General Obligation Bonds (Includes Serial, Term, and Capital Appreciation Bonds)			Qualified School Construction Bonds School Energy Conservation Improvement		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$861,510	\$1,690,896	\$2,552,406	\$0	\$119,953	\$119,953
2018	565,000	1,990,806	2,555,806	0	119,953	119,953
2019	530,000	2,145,131	2,675,131	0	119,953	119,953
2020	495,000	2,187,981	2,682,981	0	119,953	119,953
2021	1,740,000	924,131	2,664,131	0	119,953	119,953
2022-2026	10,200,000	3,441,455	13,641,455	2,030,000	539,785	2,569,785
2027-2030	11,125,000	992,049	12,117,049	0	0	0
Totals	<u>\$25,516,510</u>	<u>\$13,372,449</u>	<u>\$38,888,959</u>	<u>\$2,030,000</u>	<u>\$1,139,550</u>	<u>\$3,169,550</u>

B. Defeased Debt

In August 2014, the District defeased \$3,770,000 of Build America School Improvement Bonds dated August 11, 2010 (the "2010 Bonds") through the issuance of \$3,760,000 of General Obligation Bonds. The net proceeds of the 2010 Bonds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the refunded bonds. The refunded bonds, which have an outstanding balance of \$3,770,000 at June 30, 2016, are not included in the District's outstanding debt since the District has in-substance satisfied its obligations through the advance refunding.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

***Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016***

NOTE 12 - STATUTORY RESERVES

The District is required by state law to set aside certain General Fund revenue amounts, as defined, into various reserves. During the fiscal year ended June 30, 2016, the reserve activity (cash-basis) was as follows:

	Capital Acquisition Reserve
Set-aside Cash Balance as of June 30, 2015	\$1,105,737
Additions	381,286
Qualifying Disbursements	(818,937)
Cash Balance Carried Forward to FY 2017	<u>\$668,086</u>
Amount Restricted for Capital Acquisition	<u>\$668,086</u>

NOTE 13 - RISK MANAGEMENT

A. Public Entity Risk Pool

Preble County Schools Regional Council of Governments - Eaton Community School District participates in the Preble County Regional Council of Governments (COG). The Preble County Schools Regional Council of Governments, a public entity risk pool, was formed by five local school districts and the Preble County Educational Service Center to provide medical benefits to school district participants at a lower rate than if the individual districts acted independently. Each district pays a monthly premium to the fund trustee for insurance coverage which is provided by Anthem. The premium is based on what an insurer estimates will cover the costs of all claims for which the insurer is obligated. If the District's losses exceed its premiums, there is no individual supplemental assessment, if the District's losses are low, it will not receive a refund. Therefore, the health insurance risks have been transferred to the COG.

The Plan is governed by an administrative committee consisting of the superintendent from each participating district. The degree of control exercised by any participating school district is limited to its representation on the committee.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 13 - RISK MANAGEMENT (Continued)

B. Other Insurance

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. During fiscal year 2016, the District contracted with Liberty Mutual Insurance Company for various insurance coverages, as follows:

<u>Insurance Provider</u>	<u>Coverage</u>	<u>Deductible</u>
Liberty Mutual Insurance Company	General Liability	\$0
Liberty Mutual Insurance Company	Sexual Misconduct	\$1,000
Liberty Mutual Insurance Company	Building	\$2,500
Liberty Mutual Insurance Company	Inland Marine	\$500
Liberty Mutual Insurance Company	Crime	\$500
Liberty Mutual Insurance Company	School Board Legal Liability	\$2,500
Liberty Mutual Insurance Company	Automobile	\$1,000 Comprehensive; \$1,000 Collision

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

Workers' compensation claims are covered through the District's participation in the State of Ohio's program. The District pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

NOTE 14 - JOINTLY GOVERNED ORGANIZATION

The Southwest Ohio Computer Association (SWOCA) is a jointly governed organization among a three county consortium of school districts. The jointly governed 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 districts. Each of the governments of these schools supports SWOCA based upon a per pupil charge dependent upon the software package utilized. SWOCA is governed by a Board of Directors consisting of the superintendents and treasurers of member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. The Board consists of one representative from each of the participating 30 school districts. During fiscal year 2016, the District paid \$75,202 to SWOCA. To obtain financial information write to SWOCA, 3603 Hamilton-Middletown Road, Hamilton, OH 45011.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 14- JOINTLY GOVERNED ORGANIZATION (Continued)

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member district. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations.

Payments to SOEPC are made from the General Fund. During fiscal year 2016, the District paid \$1,203 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

The District participates in the Educational Regional Service System (ERSS) Region 10, a jointly governed organization consisting of educational entities within Clark, Darke, Greene, Miami, Montgomery, and Preble counties. The purpose of the ERSS is to provide support services to school districts, community schools, and chartered nonpublic schools within the region by supporting State and school initiatives and efforts to improve school effectiveness and student achievement with a specific reference to the provision of special education and related services. The ERSS is governed by an advisory council, which is the policymaking body for the educational entities within the region, who identifies regional needs and priorities for educational services and develops corresponding policies to coordinate the delivery of services. They are also charged with the responsibility of monitoring the implementation of State and regional initiatives and school improvement efforts. The Advisory Council is made up of the director of the ERSS, the superintendent of each educational service center within the region, the superintendent of the region's largest and smallest school district, the director and an employee from each education technology center, one representative of a four-year institution of higher education and appointed by the Ohio Board of Regents, one representative of a two-year institution of higher education and appointed by the Ohio Association of Community Colleges, three board of education members (one each from a city, exempted village, and local school district within the region), and one business representative. The degree of control exercised by any participating educational entity is limited to its representation on the Advisory Council. Financial information can be obtained from the Montgomery County Educational Service Center, 200 S. Keowee Street, Dayton, Ohio 45402.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016

NOTE 15 - CONTINGENCIES

A. Grants

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2016, if applicable, cannot be determined at this time.

B. Litigation

The District is not a party to various legal proceedings, which seek damages or injunctive relief generally incidental to its operations and pending projects as of June 30, 2016.

C. School Foundation

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

NOTE 16- SUBSEQUENT EVENT

The District approved a resolution providing for the issuance of not to exceed \$22,005,000 School Improvement Refunding Bonds on May 9, 2016. The bond refunding closed on September 7, 2016.

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SUPPLEMENTAL INFORMATION

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Schedule of District's Proportionate Share of the Net Pension Liability Last Two Fiscal Years

State Teachers Retirement System

Fiscal Year	<u>2014</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	0.079031%	0.079688%
District's proportionate share of the net pension liability (asset)	\$19,223,135	\$22,023,372
District's covered-employee payroll	\$8,017,629	\$8,132,342
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	239.76%	270.81%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	72.10%

Source: District Treasurer's Office and State Teachers Retirement System

School Employees Retirement System

Fiscal Year	<u>2014</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	0.094338%	0.099496%
District's proportionate share of the net pension liability (asset)	\$4,774,392	\$5,677,338
District's covered-employee payroll	\$2,707,010	\$2,924,915
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	176.37%	194.10%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	69.16%

Source: District Treasurer's Office and School Employees Retirement System

Notes: The District implemented GASB Statement 68 in 2015.

Information prior to 2014 is not available.

The schedule is as of June 30, 2015 which is the measurement date of the Net Pension Liability.

EATON COMMUNITY SCHOOL DISTRICT, OHIO

Schedule of District Contributions Last Two Fiscal Years

State Teachers Retirement System

Fiscal Year	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$1,158,228	\$1,200,084
Contributions in relation to the contractually required contribution	<u>1,158,228</u>	<u>1,200,084</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>
District's covered-employee payroll	\$8,132,342	\$8,267,478
Contributions as a percentage of covered-employee payroll	14.24%	14.52%

Source: District Treasurer's Office and State Teachers Retirement System

School Employees Retirement System

Fiscal Year	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$394,154	\$424,227
Contributions in relation to the contractually required contribution	<u>394,154</u>	<u>424,227</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>
District's covered-employee payroll	\$2,924,915	\$3,016,480
Contributions as a percentage of covered-employee payroll	13.48%	14.06%

Source: District Treasurer's Office and School Employees Retirement System

Notes: The District implemented GASB Statement 68 in 2015.

Information prior to 2015 is not available.

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**EATON COMMUNITY SCHOOL DISTRICT
PREBLE COUNTY**

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

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	10.555	N/A		\$57,519
Cash Assistance:				
School Breakfast Program	10.553	N/A	\$83,825	
National School Lunch Program	10.555	N/A	376,750	
Total Child Nutrition Cluster			<u>460,575</u>	<u>57,519</u>
Total U.S. Department of Agriculture			<u>460,575</u>	<u>57,519</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
Title I Grants to Local Educational Agencies	84.010	N/A	528,488	
Special Education Cluster:				
Special Education_Grants to States	84.027	H027A150111	407,329	
Special Education_Preschool Grants	84.173	N/A	4,413	
Total Special Education Cluster			<u>411,742</u>	
Improving Teacher Quality State Grants	84.367	N/A	70,345	
State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants	84.395	N/A	3,758	
Total U.S. Department of Education			<u>1,014,333</u>	
Total			<u>\$1,474,908</u>	<u>\$57,519</u>

The accompanying notes are an integral part of this schedule.

**EATON COMMUNITY SCHOOL DISTRICT
PREBLE COUNTY**

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

NOTE A – BASIS OF PRESENTATION

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D – FOOD DONATION PROGRAM

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



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*

Eaton Community School District
Preble County
304 Eaton Lewisburg Road
Eaton, Ohio 45320

To the Board of Education:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the modified cash-basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Eaton Community School District, Preble County, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 24, 2017, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

District's Response to Finding

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

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

March 24, 2017



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

Eaton Community School District
Preble County
304 Eaton Lewisburg Road
Eaton, Ohio 45320

To the Board of Education:

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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



Dave Yost
Auditor of State
Columbus, Ohio

March 24, 2017

**EATON COMMUNITY SCHOOL DISTRICT
PREBLE COUNTY**

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

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

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

FINDING NUMBER 2016-001

Noncompliance

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

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

Officials' Response:

The Board of Education voted to take the citation to save money with the preparation and audit of the school report.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

EATON COMMUNITY SCHOOL DISTRICT
PREBLE COUNTY

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

Finding Number	Finding Summary	Status	Additional Information
2015-001	Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B) - Failure to report in accordance with generally accepted accounting principles. Initially occurred in FY12.	Not Corrected and Repeated as Finding 2016-001	The Board of Education voted to take the citation to save money with the preparation and audit of the school report.

**EATON COMMUNITY SCHOOL DISTRICT
PREBLE COUNTY**

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

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	The Eaton Community Local School District uses "Other Comprehensive Basis of Accounting" financial statements that conforms with the requirement of GASB 34. Using this method does not affect the opinion issued by our independent auditors; rather the basis used is explained in their report. Also, using "Other Comprehensive Basis of Accounting" financial statements does not affect the Schools credit rating. Therefore, the Eaton Community School District does not believe a corrective action is needed.	N/A	Rachel Tait, Treasurer



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EATON COMMUNITY SCHOOL DISTRICT

PREBLE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 4, 2017**