



Dave Yost • Auditor of State

**NATIONAL TRAIL LOCAL SCHOOL DISTRICT
PREBLE COUNTY
JUNE 30, 2016**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

National Trail Local School District
Preble County
6940 Oxford-Gettysburg Road
New Paris, Ohio 45347

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the 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 Receipts and Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2017, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Dave Yost
Auditor of State
Columbus, Ohio

March 20, 2017

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National Trail Local School District
Statement of Net Position - Cash Basis
June 30, 2016

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$7,228,575
 Net Position	
Restricted for:	
Debt Service	389,654
Unclaimed Monies	3,936
Food Service	2,751
Student Managed Activities	62,309
Classroom Facilities Maintenance	41,719
State Grants	3,528
Federal Grants	16,501
Unrestricted	6,708,177
<i>Total Net Position</i>	<i>\$7,228,575</i>

See Accompanying Notes to the Basic Financial Statements

National Trail Local School District
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2016

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$4,910,828	\$385,096	\$27,980	(\$4,497,752)
Special	1,564,212	8,853	719,919	(835,440)
Vocational	124,455	0	16,395	(108,060)
Adult Continuing	8,120	0	0	(8,120)
Support Services:				
Pupils	571,540	0	142,318	(429,222)
Instructional Staff	619,509	0	450,787	(168,722)
Board of Education	69,679	0	0	(69,679)
Administration	888,785	0	0	(888,785)
Fiscal	383,502	0	0	(383,502)
Operation and Maintenance of Plant	1,655,083	0	6,573	(1,648,510)
Pupil Transportation	690,516	0	36,859	(653,657)
Central	50,332	0	0	(50,332)
Operation of Non-Instructional Services	478,349	164,690	258,285	(55,374)
Extracurricular Activities	382,821	232,872	18,457	(131,492)
Capital Outlay	22,078	0	0	(22,078)
Principal Retirement	300,000	0	0	(300,000)
Interest and Fiscal Charges	56,858	0	0	(56,858)
<i>Total Governmental Activities</i>	<u>\$12,776,667</u>	<u>\$791,511</u>	<u>\$1,677,573</u>	<u>(10,307,583)</u>
General Receipts				
Property Taxes Levied for:				
General Purposes				3,030,622
Debt Service				207,741
Other Purposes				45,184
Income Tax				2,252,171
Grants and Entitlements not Restricted to Specific Programs				6,355,952
Investment Earnings				20,376
Miscellaneous				188,635
<i>Total General Receipts</i>				<u>12,100,681</u>
<i>Change in Net Position</i>				1,793,098
<i>Net Position at Beginning of Year</i>				<u>5,435,477</u>
<i>Net Position at End of Year</i>				<u>\$7,228,575</u>

See Accompanying Notes to the Basic Financial Statements

National Trail Local School District
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$6,749,460	\$475,179	\$7,224,639
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	3,936	0	3,936
<i>Total Assets</i>	<u><u>\$6,753,396</u></u>	<u><u>\$475,179</u></u>	<u><u>\$7,228,575</u></u>
Fund Balances			
Nonspendable	\$3,936	\$0	\$3,936
Restricted	0	516,462	516,462
Committed	1,884,825	0	1,884,825
Assigned	316,360	0	316,360
Unassigned (Deficit)	4,548,275	(41,283)	4,506,992
<i>Total Fund Balances</i>	<u><u>\$6,753,396</u></u>	<u><u>\$475,179</u></u>	<u><u>\$7,228,575</u></u>

See Accompanying Notes to the Basic Financial Statements

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

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Receipts			
Property Taxes	\$3,030,622	\$252,925	\$3,283,547
Income Tax	2,252,171	0	2,252,171
Intergovernmental	6,821,469	795,848	7,617,317
Investment Earnings	20,376	0	20,376
Tuition and Fees	356,374	0	356,374
Rent	9,425	0	9,425
Extracurricular Activities	28,163	232,859	261,022
Gifts and Donations	397,751	18,457	416,208
Charges for Services	0	164,690	164,690
Miscellaneous	182,358	6,277	188,635
<i>Total Receipts</i>	<u>13,098,709</u>	<u>1,471,056</u>	<u>14,569,765</u>
Disbursements			
Current:			
Instruction:			
Regular	4,884,464	26,364	4,910,828
Special	1,288,831	275,381	1,564,212
Vocational	124,455	0	124,455
Adult Continuing	8,120	0	8,120
Support Services:			
Pupils	410,334	161,206	571,540
Instructional Staff	566,797	52,712	619,509
Board of Education	69,679	0	69,679
Administration	881,835	6,950	888,785
Fiscal	383,502	0	383,502
Operation and Maintenance of Plant	1,559,377	95,706	1,655,083
Pupil Transportation	690,516	0	690,516
Central	50,332	0	50,332
Operation of Non-Instructional Services	0	478,349	478,349
Extracurricular Activities	154,710	228,111	382,821
Capital Outlay	22,078	0	22,078
Debt Service:			
Principal Retirement	60,000	240,000	300,000
Interest and Fiscal Charges	8,702	48,156	56,858
<i>Total Disbursements</i>	<u>11,163,732</u>	<u>1,612,935</u>	<u>12,776,667</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,934,977</u>	<u>(141,879)</u>	<u>1,793,098</u>
Other Financing Sources (Uses)			
Advances In	3,806	2,199	6,005
Transfers In	0	50,000	50,000
Advances Out	(2,199)	(3,806)	(6,005)
Transfers Out	(50,000)	0	(50,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(48,393)</u>	<u>48,393</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	1,886,584	(93,486)	1,793,098
<i>Fund Balances at Beginning of Year</i>	<u>4,866,812</u>	<u>568,665</u>	<u>5,435,477</u>
<i>Fund Balances at End of Year</i>	<u><u>\$6,753,396</u></u>	<u><u>\$475,179</u></u>	<u><u>\$7,228,575</u></u>

See Accompanying Notes to the Basic Financial Statements

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

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Receipts				
Property Taxes	\$3,077,317	\$3,077,317	\$3,030,622	(\$46,695)
Income Tax	2,266,904	2,266,904	2,252,171	(14,733)
Intergovernmental	6,180,353	6,680,353	6,821,469	141,116
Investment Earnings	7,000	7,000	20,376	13,376
Tuition and Fees	374,500	414,500	356,374	(58,126)
Rent	8,100	8,100	9,425	1,325
Extracurricular Activities	31,665	31,665	28,138	(3,527)
Gifts and Donations	401,115	401,115	397,751	(3,364)
Miscellaneous	144,566	144,566	178,281	33,715
<i>Total Receipts</i>	<u>12,491,520</u>	<u>13,031,520</u>	<u>13,094,607</u>	<u>63,087</u>
Disbursements				
Current:				
Instruction:				
Regular	5,138,362	5,037,019	4,921,320	115,699
Special	1,091,469	1,310,072	1,292,057	18,015
Vocational	128,850	127,711	124,455	3,256
Adult Continuing	16,486	8,686	8,120	566
Support Services:				
Pupils	490,364	486,128	466,170	19,958
Instructional Staff	841,264	600,540	583,507	17,033
Board of Education	41,010	79,727	76,893	2,834
Administration	875,732	912,394	891,921	20,473
Fiscal	394,936	400,441	395,207	5,234
Operation and Maintenance of Plant	1,538,084	2,092,729	2,086,157	6,572
Pupil Transportation	953,488	743,682	733,388	10,294
Central	82,435	66,727	58,786	7,941
Extracurricular Activities	155,250	159,763	154,710	5,053
Capital Outlay	0	326,498	326,498	0
Debt Service:				
Principal Retirement	60,000	60,000	60,000	0
Interest and Fiscal Charges	8,702	8,702	8,702	0
<i>Total Disbursements</i>	<u>11,816,432</u>	<u>12,420,819</u>	<u>12,187,891</u>	<u>232,928</u>
<i>Excess of Receipts Over Disbursements</i>	<u>675,088</u>	<u>610,701</u>	<u>906,716</u>	<u>296,015</u>
Other Financing Sources (Uses)				
Refund of Prior Year Disbursements	5,000	5,000	692	(4,308)
Advances In	5,000	5,000	3,806	(1,194)
Insurance Recoveries	0	0	3,410	3,410
Advances Out	(5,000)	(5,000)	(2,199)	2,801
Transfers Out	(25,032)	(50,032)	(50,000)	32
<i>Total Other Financing Sources (Uses)</i>	<u>(20,032)</u>	<u>(45,032)</u>	<u>(44,291)</u>	<u>741</u>
<i>Net Change in Fund Balances</i>	655,056	565,669	862,425	296,756
<i>Fund Balance Beginning of Year</i>	4,395,540	4,395,540	4,395,540	0
Prior Year Encumbrances Appropriated	471,272	471,272	471,272	0
<i>Fund Balance End of Year</i>	<u>\$5,521,868</u>	<u>\$5,432,481</u>	<u>\$5,729,237</u>	<u>\$296,756</u>

See Accompanying Notes to the Basic Financial Statements

National Trail Local School District
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Funds
June 30, 2016

	Private Purpose Trust Funds	Agency Funds
Assets		
Equity in Pooled Cash and Cash Equivalents	\$20,366	\$48,680
Net Position		
Held in Trust for Scholarship	\$20,366	\$0
Held on Behalf of Students	0	48,680
<i>Total Net Position</i>	\$20,366	\$48,680

See Accompanying Notes to the Basic Financial Statements

National Trail Local School District
Statement of Changes in Fiduciary Net Position - Cash Basis
Fiduciary Funds
For the Fiscal Year Ended June 30, 2016

	<u>Private Purpose Trust Funds</u>
Additions	
Miscellaneous	\$272
Deductions	
Payments in Accordance with Trust Agreements	<u>4,733</u>
<i>Change in Net Position</i>	(4,461)
<i>Net Position at Beginning of Year</i>	<u>24,827</u>
<i>Net Position at End of Year</i>	<u><u>\$20,366</u></u>

See Accompanying Notes to the Basic Financial Statements

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The National Trail Local School District, Preble County, Ohio (the “School District”), is a political body incorporated and established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is organized under article VI, sections 2 and 3 of the Constitution of the State of Ohio. The National Trail Local School District is governed by a locally elected, five member Board of Education (the Board), which provides educational services.

Reporting Entity

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

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

The School District participates in four jointly governed organizations, one insurance purchasing pool and one shared risk pool. These organizations include the Southwest Ohio Computer Association, the Southwestern Ohio Educational Purchasing Council, the Southwestern Ohio Instructional Technology Association, Preble County Professional Development Consortium, the Southwestern Ohio Educational Purchasing Council Workers’ Compensation Group Rating Plan, and the Preble County Schools Regional Council of Governments, respectively. These organizations are presented in Note 15 to the basic financial statements.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

Government-wide Financial Statements

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

The Statement of Net Position presents the cash balance of the governmental activities of the School District at fiscal year-end. The Statement of Activities compares disbursements with program receipts for each function of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program 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 School District's general receipts.

Fund Financial Statements

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

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

presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

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

Governmental Funds

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

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature. The School District's fiduciary funds include Private Purpose Trust Funds and Agency Funds. The School District's Private Purpose Trust Funds account for teachers and other faculty members sending flowers to the sick and/or bereaved, and for other special occasions and college scholarship programs for students. The School District's Agency Funds account for Ohio High School Athletic Association tournaments, and those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

Basis of Accounting

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

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

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

Budgetary Process

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

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

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

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions. Restricted assets in the General Fund represent cash and cash equivalents held as unclaimed monies.

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

Cash and Investments

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

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of investment earnings. Investment earnings credited to the General Fund during fiscal year 2016 was \$20,376, which included \$1,923 assigned from other School District funds.

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

Pensions

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

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include resources for federal and State grants restricted to cash disbursement for specified purposes. The School District applies restricted resources first when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position is available.

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

Fund Balance

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

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

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

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

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

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

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

Interfund Balances

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

Accumulated Leave

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

Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

Long-Term Obligations

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 disbursements are made.

Internal Activity

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

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

NOTE 3 - FUND BALANCES

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

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

Fund Balances	General Fund	Nonmajor Governmental Funds	Total
<i>Nonspendable</i>			
Unclaimed Monies	\$3,936	\$0	\$3,936
<i>Restricted for</i>			
Debt Service Payments	0	389,654	389,654
Food Service	0	2,751	2,751
Student Managed Activities	0	62,309	62,309
Classroom Facilities Maintenance	0	41,719	41,719
State Grants	0	3,528	3,528
Federal Grants	0	16,501	16,501
<i>Total Restricted</i>	<u>0</u>	<u>516,462</u>	<u>516,462</u>
<i>Committed to</i>			
Capital Improvements	1,173,502	0	1,173,502
Legal and Other Contracts	711,323	0	711,323
<i>Total Committed</i>	<u>1,884,825</u>	<u>0</u>	<u>1,884,825</u>
<i>Assigned to</i>			
Purchases on Order	316,360	0	316,360
<i>Unassigned (Deficit)</i>	<u>4,548,275</u>	<u>(41,283)</u>	<u>4,506,992</u>
<i>Total Fund Balances</i>	<u><u>\$6,753,396</u></u>	<u><u>\$475,179</u></u>	<u><u>\$7,228,575</u></u>

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

Net Change in Fund Balance

	<u>General Fund</u>
Cash Basis	\$1,886,584
Adjustment for Encumbrances	<u>(1,024,159)</u>
Budget Basis	<u><u>\$862,425</u></u>

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

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

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

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

Investments

As of June 30, 2016, the School District had investments in STAROhio in the amount of \$5,210,330. The average maturity of STAROhio is 48.6 days.

Interest Rate Risk

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

Credit Risk

STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

National Trail Local School District
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 School District’s fiscal year runs from July through June. First half tax collections are received by the School District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015 on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State 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 year 2016 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2014 were levied after April 1, 2015 and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

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

	<u>2015 Second- Half Collections</u>		<u>2016 First- Half Collections</u>	
	Amount	Percent	Amount	Percent
Real Estate	\$161,249,350	95.41%	\$160,878,970	95.31%
Public Utility Personal	7,752,880	4.59%	7,916,420	4.69%
Total Assessed Value	<u>\$169,002,230</u>	<u>100.00%</u>	<u>\$168,795,390</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$29.40		\$29.40	

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

NOTE 7 - INCOME TAX

The School District levies a voted tax of one percent for general operations on the income of residents and of estates. An additional three-fourths percent was passed and effective January 1, 2011 for an additional five years for general expenses and passed again in May of 2014 for an additional five years. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds.

NOTE 8 - INTERFUND ACTIVITY

At June 30, 2016, the General Fund had an unpaid interfund cash advance, in the amount of \$2,199, for a short-term loan made to Nonmajor Governmental Funds. This is expected to be received within one year. The General Fund also received repayments from Nonmajor Governmental Funds of \$3,806, for short-term loans made during fiscal year 2015.

NOTE 9 - RISK MANAGEMENT

Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the School District contracted with Liberty Mutual Insurance for property, fleet, and liability insurance.

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

Workers' Compensation

For fiscal year 2016, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience, and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Hunter Consulting provides administrative, cost control, and actuarial services to the GRP.

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

Employee Medical Benefits

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

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

The School District’s contractually required contribution to SERS was \$187,645 for fiscal year 2016.

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

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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

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

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

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

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

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

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

The School District's contractually required contribution to STRS was \$569,144 for fiscal year 2016.

Net Pension Liability

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.05129400%	0.03894285%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.04452120%</u>	<u>0.03896469%</u>	
Change in Proportionate Share	<u>-0.00677280%</u>	<u>0.00002184%</u>	
Proportionate Share of the Net Pension Liability	\$2,540,422	\$10,768,702	\$13,309,124

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

Actuarial Assumptions - SERS

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

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

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

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

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

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

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

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

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

projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$3,522,654	\$2,540,422	\$1,713,301

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

National Trail Local School District
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Actuarial Assumptions - STRS

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

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above. Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>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

National Trail Local School District
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For the Fiscal Year Ended June 30, 2016

percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$14,958,537	\$10,768,702	\$7,225,569

NOTE 11 - POSTEMPLOYMENT BENEFITS

School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than

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

an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the School District's surcharge obligation was \$22,644.

The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$36,175, and \$38,911, respectively. The full amount has been contributed for all three fiscal years.

State Teachers Retirement System of Ohio

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. For the fiscal year ended June 30, 2014, one percent of covered payroll was allocated to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$39,591, respectively. The full amount has been contributed for all three fiscal years.

NOTE 12 – EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Certain employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. All unused vacation, up to a balance not greater than three years accrual, may be carried forward to the succeeding fiscal year. Sick leave may be accumulated up to a maximum of 232 days for classified employees and 282 days for certified employees. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit at their daily rate upon retirement for classified and certified employees.

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

Life Insurance

Life Insurance is provided by the School District to most employees through Lincoln National Life Insurance.

Dental Care

Dental Insurance is provided by the School District to most employees through Delta Dental Plans Association.

Vision Care

Vision Insurance is provided by the School District to most employees through Principal Life Insurance Company.

Deferred Compensation Plan

School District employees may elect to participate in the Ohio Public Employees Deferred Compensation Plan. The plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 13 - LONG-TERM OBLIGATIONS

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

	Amount Outstanding 6/30/15	Additions	Deductions	Amount Outstanding 6/30/16	Amounts Due Within One Year
<u>Governmental Activities:</u>					
General Obligation School					
Improvement Refunding Bonds					
2007 3.75 - 5.875%	\$1,065,000	\$0	\$240,000	\$825,000	\$255,000
Capital Lease	252,000	0	60,000	192,000	62,000
Total Governmental Activities					
Long-Term Liabilities	<u>\$1,317,000</u>	<u>\$0</u>	<u>\$300,000</u>	<u>\$1,017,000</u>	<u>\$317,000</u>

School Improvement Refunding Bonds

On December 1, 1996, the School District issued \$3,509,440 in voted general obligation bonds for the purpose of the construction of a new school building in the School District. The bonds were issued for a 22 year period with final maturity during fiscal year 2019. During fiscal year

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

2007, \$1,600,000 of the bonds were refunded. The refunding bonds were issued with variable interest rates between 3.750 and 5.875 percent with final maturity during fiscal year 2019. The debt will be retired from the Bond Retirement Debt Service Fund.

The capital lease will be paid from the General Fund.

The School District's overall legal debt margin was \$14,756,235 with an unvoted debt margin of \$168,795, and an Energy Conservation debt margin of \$1,327,159, at June 30, 2016.

Principal and interest requirements to retire long-term obligations outstanding at June 30, 2016, are as follows:

Fiscal Year Ending June 30,	School Improvement Bonds Principal	School Improvement Bonds Interest
2017	\$255,000	\$38,256
2018	265,000	25,537
2019	305,000	8,959
Total	\$825,000	\$72,752

NOTE 14 – CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the School District entered into a lease-purchase agreement with the Columbus Regional Airport Authority for the acquisition, construction and installation of energy conservation improvements. Columbus Regional Airport Authority will retain title to the project during the lease term.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2016.

Fiscal Year Ending June 30,	Total Payments
2017	\$67,748
2018	67,499
2019	67,178
Total minimum lease payments	202,425
Less: amount representing interest	(10,425)
Present value of minimum lease payments	\$192,000

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

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS/INSURANCE PURCHASING POOLS/SHARED RISK POOL

Jointly Governed Organizations

Southwest Ohio Computer Association

The School District is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public school districts within the boundaries of Butler, Warren, and Preble Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SWOCA consists of one representative from each district plus one representative from the fiscal agent. The Board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the Board. The School District paid SWOCA \$25,396 for services provided during the fiscal year. Financial information can be obtained from Donna Davis Norris, Executive Director of SWOCA at 3611 Hamilton-Middletown Road, Hamilton, Ohio 45011.

Southwestern Ohio Educational Purchasing Council

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

The Council exercises total control over the operations of the Council including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the Council. 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 districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year's prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations.

Payments to SOEPC are made from the General Fund. During fiscal year 2016, the School District paid \$727 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

Southwestern Ohio Instructional Technology Association

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is

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

comprised of 21 representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene, and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members in the State-assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area. The Board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the Board.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net position shall be distributed to the federal government, or to a State or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2016, the School District paid \$837 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Frank Depalma, who serves as Interim Executive Director, at 1205 East Fifth Street, Dayton, Ohio 45402.

Preble County Professional Development Consortium

The School District is a participant in the Preble County Professional Development Consortium (PCPDC). PCPDC is an association of public school districts within the boundaries of Preble County. The organization was formed to improve staff development and instructional functions by making optimum use of public funds through cooperation of member public school districts. The governing board of PCPDC consists of one representative from each district plus one representative from the fiscal agent. The Board exercises total control over the operations of the consortium including budgeting, appropriating, contracting and designation of management. Each school district's degree of control is limited to its representation on the Board. The School District paid PCPDC \$2,437 for services provided during the fiscal year. Financial information can be obtained from Kerry Borger, Treasurer, Preble County Educational Service Center, 597 Hillcrest Drive, Eaton, Ohio 45320 or email at kerry.borger@preblecountyesc.org.

Insurance Purchasing Pool

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

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

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

the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Shared Risk Pool

Preble County Schools Regional Council of Governments

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

NOTE 16 - SET-ASIDE CALCULATIONS

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

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

	Capital Improvements
Set-aside Balance as of June 30, 2015	\$0
Current Fiscal Year Set-aside Requirement	186,067
Qualifying Disbursements	(400,269)
Current Fiscal Year Offsets	(45,184)
Totals	(\$259,386)
Set-aside Balance Carried Forward to Future Fiscal Years	\$0

The School District had offsets and qualifying disbursements during the fiscal year that reduced the capital acquisitions set-aside amount below zero. The extra amount for capital acquisitions may not be used to reduce the set-aside requirement of future fiscal years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

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

NOTE 17 – ACCOUNTABILITY AND COMPLIANCE

Accountability

At June 30, 2016, the Title VI-B fund had deficit fund balance of \$41,283. The deficit in this fund is due to the timing of when grant money is received from the Ohio Department of Education.

Compliance

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

NOTE 18 - CONTINGENCIES

Grants

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

State Foundation

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

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

Litigation

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

NOTE 19 – SIGNIFICANT COMMITMENTS

Encumbrances

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

General Fund	\$1,024,159
Nonmajor Governmental Funds	39,917
Total	\$1,064,076

Contractual Commitments

The following table provides a summary of the outstanding contractual commitments as of June 30, 2016.

Contractor	Contract Amount	Amount Expended	Amount Remaining
R. L. Fender Construction - Greenhouse	\$207,498	\$39,836	\$167,662
R. L. Fender Construction - Athletic Training Center	326,498	22,078	304,420
Wagner Paving - Asphalt Replacement	179,170	0	179,170
	\$713,166	\$61,914	\$651,252

**NATIONAL TRAIL LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

**SCHEDULE OF RECEIPTS AND 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	Total Federal Receipts
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	25,782	25,782
Cash Assistance:				
School Breakfast Program	10.553	N/A	49,071	49,071
National School Lunch Program	10.555	N/A	178,311	178,311
Total Child Nutrition Cluster			253,164	253,164
Total U.S. Department of Agriculture			253,164	253,164
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
Special Education Cluster:				
Special Education_Grants to States	84.027	H027A150111	224,897	198,545
Special Education_Preschool Grants	84.173	N/A	1,209	1,209
Total Special Education Cluster			226,106	199,754
Title I Grants to Local Educational Agencies	84.010	S010A150035	236,728	248,039
Improving Teacher Quality State Grants	84.367	S367A150034	47,180	47,865
Total U.S. Department of Education			510,014	495,658
Total Receipts and Expenditures of Federal Awards			\$763,178	\$748,822

The accompanying notes are an integral part of this schedule.

**NATIONAL TRAIL LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND 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 Receipts and Expenditures of Federal Awards (the Schedule) includes the federal award activity of National Trail Local School District (the School District) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position or changes in net position of the School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D – FOOD DONATION PROGRAM

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



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

National Trail Local School District
Preble County
6940 Oxford-Gettysburg Road
New Paris, Ohio 45347

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of National Trail Local School District, Preble County, (the School District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 20, 2017, wherein we noted the School District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

School District's Response to Finding

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

Purpose of this Report

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

Dave Yost
Auditor of State
Columbus, Ohio

March 20, 2017



Dave Yost • Auditor of State

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

National Trail Local School District
Preble County
6940 Oxford-Gettysburg Road
New Paris, Ohio 45347

To the Board of Education:

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to opine on the School District's compliance for each of the School 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 School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the National Trail Local 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.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which Uniform Guidance requires us to report, described in the accompanying schedule of findings as item 2016-002. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

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

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

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

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

National Trail Local School District
Preble County
Independent Auditor's Report on Compliance with Requirements Applicable
To Each Major Federal Program and on Internal Control Over
Compliance Required by the Uniform Guidance
Page 3

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 20, 2017

**NATIONAL TRAIL LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

**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 Rev. Code § 117.38.

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

Officials' Response:

See the attached Corrective Action Plan.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	2016-002		
CFDA Title and Number	School Breakfast Program CFDA #10.553 National School Lunch Program CFDA #10.555		
Federal Award Identification Number / Year	2016		
Federal Agency	U.S. Department of Agriculture		
Pass-Through Entity	Ohio Department of Education		
Repeat Finding from Prior Audit?	No	Finding Number (if repeat)	N/A

Noncompliance and Significant Deficiency - Eligibility

The School District administers the Child Nutrition Cluster federal program during fiscal year 2016. The following issues were noted during review of free/reduced price meal applications:

- The eligibility section on all 60 free/reduced price meal applications tested were not fully completed by the Food Service Director at the time of eligibility determination. The bottom portion of the applications were not signed nor completed indicating the results of the verification. However, the bottom portions of the applications were initialed by the Food Service Director or her representative.

**FINDING NUMBER 2016-002
(Continued)**

Failure to properly document free/reduced meal application eligibility could result in students receiving meal benefits for which they are not eligible or students who are eligible not receiving meal benefits.

The Food Service Director should implement procedures to verify that all information has been completed in the eligibility and verification sections of the free/reduced price meal applications. All applications should be signed by the Food Service Director or her representative upon determination of eligibility.

- **7 C.F.R. § 245.3** states, in part, (a) Each State agency shall by July 1 of each year announce family-size income standards to be used by local educational agencies, as defined in § 245.2, under the jurisdiction of such State agency in making eligibility determinations for free or reduced price meals and for free milk. Such family size income standards for free and reduced price meals and for free milk shall be in accordance with Income Eligibility Guidelines published by the Department by notice in the Federal Register; (b) Each participating local educational agency and all participating schools under its jurisdiction must adhere to the eligibility criteria specified in this part. Local educational agencies must include these eligibility criteria in their policy statement as required under § 245.10 and it must be publicly announced in accordance with the provisions of § 245.5. Additionally, each State agency must require that local educational agencies accept as income eligible for free meals and free milk, children who are categorically eligible for those benefits based on documentation of eligibility, as specified in § 245.6 (b); and (c) Each School Food Authority shall serve free and reduced price meals or free milk in the respective programs to children eligible under its eligibility criteria.

During fiscal year 2016, the School District had determined one student to be eligible for reduced price meals. However, after recalculating the family's income it was determined that the student was eligible for free meals.

Failure to properly determine eligibility could result in loss of federal funding. The School District should implement procedures to verify that correct income figures are used when determining the eligibility of a student for free and reduced lunches.

Officials' Response:

See the attached Corrective Action Plan.

**NATIONAL TRAIL LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

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

Finding Number	Finding Summary	Status	Additional Information
2015-001	Ohio Rev. Code §117.38 and Ohio Admin. Code §117-2-03(B) - Failure to prepare financial statements in accordance with generally accepted accounting principles. Finding initially occurred in fiscal year 1999.	Not Corrected	Reissued as Finding 2016-001. The District prepares OCBOA cash basis financial statements. See the following Corrective Action Plan.

**NATIONAL TRAIL LOCAL SCHOOL DISTRICT
PREBLE COUNTY**

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

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	The National Trail 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 National Trail Local School District does not believe a corrective action is needed.	N/A	Kerry Borger, Treasurer
2016-002	The Food Service Director is working with the staff and has done training on how to properly complete the forms. This comment should be alleviated in future audit periods.	June 30, 2017	Kerry Borger, Treasurer