



Dave Yost • Auditor of State

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Northeastern Local School District
Clark County
1414 Bowman Road
Springfield, Ohio 45502

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Northeastern Local School District, Clark County, Ohio, as of June 30, 2016, and the respective changes in financial position thereof and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted to opine on the District's basic 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 the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves 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 22, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State
Columbus, Ohio

March 22, 2017

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

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

Financial Highlights

Key financial highlights for 2016 are as follows:

In total, net position increased \$1,864,371, which represents a 7.53 percent increase from 2015.

General revenues accounted for \$29,415,635 in revenue or 84.95 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for \$5,210,782 or 15.05 percent of total revenues of \$34,626,417.

Total assets of governmental activities decreased by \$58,985 as cash and cash equivalents increased by \$101,896, receivables increased by \$470,259 and capital assets decreased by \$660,084.

The governmental activities of the School District had \$32,762,046 in expenses; only \$5,210,782 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes and grants/entitlements) of \$29,415,635 were adequate to provide for these programs.

Among major funds, the General Fund had \$ 31,334,692 in revenues and \$29,375,562 in expenditures. The General Fund's balance increased \$ 1,959,130 over 2015. This increase is partially due to an increase in property taxes and the fact that we started receiving income taxes in fiscal year 2016 due to the passage of a 1% earned income tax in May of 2015.

Using this General Accepted Accounting Principles Report (GAAP)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Northeastern Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Northeastern Local School District, the General Fund is by far the most significant fund.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net position and change in net position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the School District's property and income tax base, current property tax laws in Ohio restricting revenue growth, facility condition, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the School District reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District does not have any business-type activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 11. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Permanent Improvement Capital Projects Fund.

Governmental Funds

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods.

These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2016 compared to 2015.

**Table 1
Net Position**

	<u>2015</u>	<u>2016</u>
Assets		
Current and Other Assets	\$22,202,755	\$22,803,854
Capital Assets	16,093,118	15,433,034
Total Assets	<u>38,295,873</u>	<u>38,236,888</u>
Deferred Outflows of Resources		
Pension	2,917,814	4,357,273
Liabilities		
Long-Term Liabilities Other Than Pension	2,921,733	2,578,923
Long Term Pension Liability	40,826,495	45,090,121
Other Liabilities	3,654,252	3,988,865
Total Liabilities	<u>47,402,480</u>	<u>51,657,909</u>
Deferred Inflows of Resources		
Pension	7,363,041	3,919,807
Other Deferred Inflows of Resources	11,218,233	9,922,141
Total Deferred Inflows of Resources	<u>18,581,274</u>	<u>13,841,948</u>
Net Position		
Net Investment in Capital Assets	14,414,534	14,046,777
Restricted	1,947,340	1,647,781
Unrestricted	(41,131,941)	(38,600,254)
Total Net Position	<u>\$(24,770,067)</u>	<u>\$(22,905,696)</u>

During 2015, the Northeastern Local School District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Northeastern Local School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the Northeastern Local School District's proportionate share of each plan's collective:

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

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

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

In accordance with GASB 68, the Northeastern Local School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the Northeastern Local School District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Total net position increased \$1,864,371, cash and cash equivalents increased by \$101,896, receivables increased by \$470,259 and capital assets decreased by \$660,084. Unrestricted net position, the part of net position that can be used to finance day-to-day activities without constraints established by grants or legal requirements of the School District, increased by \$2,531,687. This increase is partially due to an increase in property taxes and the fact that we started receiving income taxes in fiscal year 2016 due to the passage of a 1% earned income tax in May of 2015.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2016 and 2015.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

**Table 2
Changes in Net Position**

	2015	2016
Revenues		
Program Revenues:		
Charges for Services	\$3,419,640	\$3,153,271
Operating Grants and Contributions	2,181,183	2,057,511
General Revenues		
Property Taxes	11,670,437	13,068,271
Income Taxes		815,967
Grants and Entitlements	15,811,893	15,306,117
Other	142,215	225,280
Total Revenues	33,225,368	34,626,417
Program Expenses		
Instruction	18,246,189	19,662,041
Support Services:		
Pupils and Instructional Staff	3,135,217	3,060,407
Board of Education, Administration, and Fiscal	3,129,791	3,265,408
Operation and Maintenance of Plant	2,164,226	2,310,274
Pupil Transportation	1,904,089	1,961,171
Central	9,400	25,124
Operation of Non-Instructional Services	1,555,570	1,400,503
Extracurricular Activities	962,925	1,025,889
Interest and Fiscal Charges	73,637	51,229
Total Expenses	31,181,044	32,762,046
Increase (Decrease) in Net Position	\$2,044,324	\$1,864,371

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District operations. Property taxes made up 37.74 percent of revenues for governmental activities for the Northeastern Local School District for fiscal year 2016.

Due to the fact that permanent improvement needs never end; the board decided to place a 1 mill continuous permanent improvement levy on the ballot in November, 2006. This levy attempt failed. The board voted to place the permanent improvement levy back on the ballot in May, 2007. However, upon learning that May was considered a Special election and the cost to the District could be \$33,000 or more to place the issue on the ballot, the board voted to remove the issue in May and place it on the ballot in November, 2007. November, 2007 is not a special election and collection would still begin in January, 2008. However, the levy was again defeated in November, 2007. Additionally, the levy failed in March, 2008 and August, 2008. The board voted to place it back on the ballot again in November, 2008. After a long hard battle, the board was able to get voter approval for the 1 mill continuous permanent improvement levy. This also set the stage for the District to qualify for approval of a project to be cofounded by the Ohio School Facilities Commission. On August 24, 2009, the district was informed that their OSFC number had arrived and the district had one year to pass its local funding for a building project.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

The district put on a combination ¼% income tax and 7.572 mill bond issue on each of the November of 2009 and February of 2012 elections. The issues failed both times. Then the School District regrouped, got more community input, changed its plan to better suit the desires of the community. Upon doing so, the School District came back to the voters on the August 3, 2012 ballot with a 7.876 mill bond issue shortened to 28 years rather than 37 and no income tax. The issue still failed, which caused the district to become a lapsed School District with no guarantee of OSFC co-funding in the future.

Instruction comprises 60.01 percent of district expenses. Support services expenses make up 32.42 percent of the expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3

	Net Cost of Services 2015	Net Cost of Services 2016
Instruction	\$14,619,626	\$16,341,238
Support Services:		
Pupils and Instructional Staff	2,914,492	2,836,788
Board of Education, Administration, and Fiscal	3,129,791	3,265,408
Operation and Maintenance of Plant	2,162,219	2,310,274
Pupil Transportation	1,904,089	1,961,171
Central	9,400	25,124
Operation of Non-Instructional Services	176,028	45,947
Extracurricular Activities	590,939	714,085
Interest and Fiscal Charges	73,637	51,229
Total Expenses	<u>\$25,580,221</u>	<u>\$27,551,264</u>

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupils and instructional staff include the activities involved with assisting staff with the content and process of teaching pupils.

Board of education, administration, fiscal and business includes expenses associated with administrative and financial supervision of the District.

Operation and maintenance of plant activities involve keeping the school grounds, buildings, and equipment in an effective working condition.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Operation of non-instruction services includes the preparation, delivery, and servicing of lunches, snacks and other incidental meals to students and school staff in connection with school activities.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

Extracurricular activities includes expenses related to student activities provided by the School District which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment and skill improvement.

Interest and fiscal charges involve the transactions associated with the payment of interest and other related charges to debt of the School District.

The dependence upon tax revenues is apparent. Almost 83 percent of instruction activities are supported through taxes and other general revenues; for all activities general revenue support is approximately 84 percent. The community, as a whole, is the primary support for the Northeastern Local School District.

The School District's Funds

Information about the School District's major funds starts on page 19. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$34,672,000 and expenditures of \$33,230,677. The net change in fund balance for the year was most significant in the General Fund, an increase of \$1,959,130. This increase is partially due to an increase in property taxes and the fact that we started receiving income taxes in fiscal year 2016 due to the passage of a 1% earned income tax in May of 2015. Currently, continued phasing out of personal property taxes is being offset by the hold harmless revenue being contributed by the state. Our bottom line is also only being assisted currently by the passage of the permanent improvement levy in November of 2008. Some expenditures which previously had to be absorbed by the General Fund are now being paid from the Permanent Improvement Fund. However, due to using the Permanent Improvement fund more, we are now seeing its fund balance begin to decline more rapidly than before.

General Fund Budgeting Highlights

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

During the course of the 2016 fiscal year, the School District amended its General Fund budget several times, which resulted in appropriations decreasing \$1,096,549. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. Prior to year-end, the School District requested an amended certificate of estimated resources and passed appropriations to match expenditures plus encumbrances.

For the General Fund, budget basis revenue and other financing sources was \$23,902,664; \$136,865 above the original budgeted estimates of \$23,765,799. This difference was mainly due to an increase in estimated revenue from income taxes.

Capital Assets

At the end of the 2016 fiscal year, the School District had \$15,433,034 invested in land, buildings, furniture, fixture and equipment, and vehicles. Table 4 shows fiscal 2016 balances compared to 2015.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

**Table 4
Capital Assets (Net of Depreciation) at June 30**

	<u>2015</u>	<u>2016</u>
Land	\$268,349	\$268,349
Land Improvements	292,340	285,401
Buildings	12,699,469	12,232,044
Furniture, Fixtures & Equipment	1,972,972	1,839,993
Vehicles	859,988	807,247
Total Expenses	<u>\$16,093,118</u>	<u>\$15,433,034</u>

Overall capital assets decreased \$660,084 from fiscal year 2015 to fiscal year 2016. This is the result of the increase in accumulated depreciation exceeding the investment in new assets.

Debt Administration

On September 15, 2005, the Northeastern Local School District issued \$3,765,000 of General Obligation refunding bonds to provide resources to purchase United States Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$3,765,000 of General Obligation bonds. The School District used the new bonds, previously funded debt service payments, plus \$339,813, to defease the outstanding liability. The refunded portion of the 1996 bonds were called at the first call date of December 1, 2007. As a result, the in-substance defeasance is considered to be defeased and the liability has been removed from the statement of net position.

In September 2005, the School District entered into an Escrow Trust Agreement with the Bank of New York. The agreement required that the School District deposit \$4,023,579 into an irrevocable trust with the bank for the payment to final maturity from the 1996 General Obligation Bonds. The funds deposited, per the agreement, purchased U.S. Government Securities in substitution of the general obligations of the School District. The funds deposited, together with interest earned thereon, shall be sufficient to pay semi-annual principal and interest payments, thus providing an in-substance defeasance. The (in-substance) defeasance has occurred for the following General Obligation bonds:

Original Amount	Amount Defeased	Outstanding Amount at 6/30/16
\$5,300,000	\$3,765,000	\$0

Current Financial Issues and Concerns

The cash fund balance in the general fund increased this year by \$365,995. This increase is partially due to an increase in property taxes and the fact that we started receiving income taxes in fiscal year 2016 due to the passage of a 1% earned income tax in May of 2015.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(UNAUDITED)
(Continued)**

We are currently overcrowded in the majority of our buildings. The board and administration have worked very hard to ascertain the consensus of our constituents prior to again placing a bond issue for construction on the November, 2008 ballot. An issue to build two new middle schools was first placed on the ballot in November, 2000. It failed at that time. It has been placed on the ballot four times since and has failed all four times. The board and administration feel that this is not an indication of voter disapproval toward construction, but more a barometer of the economy. In an effort to ascertain the mind set of our constituents, the board and administration made a commitment to work with the community at various community meetings held across the District. In addition to exploring public opinion as to what type of building(s) should be constructed, major concerns were raised as to whether the general public understands how schools are funded in the state of Ohio. Also, whether the public understands the fact that the administration is doing its best to get the greatest student education using the least amount of public resources. With this in mind, the board and administration made a commitment to a series of "public school engagement dialogue" meetings that began in fiscal year 2006. These meetings have been intended to bring constituents in and engage them in a process of learning how public schools are funded in Ohio and why there is a shortfall of dollars to educate our students. This commitment continues as the district's board of education and administration continues to hold meetings to inform our constituents.

As mentioned previously, since the one mill continuous Permanent Improvement Levy was approved, the School District administration and board continued to work with the Ohio School Facilities Commission (OSFC) to introduce a master plan that would be accepted by the voters. The OSFC requires school districts to have at least a one half mill Continuous Permanent Improvement Levy on the books to support new schools should they become a reality. Despite hours upon hours of time invested educating the public, the board and administration were unsuccessful in passing a bond issue for new schools.

Prior to becoming a lapsed district, we were 42% state funded and 58% locally funded as far as the Ohio School Facilities Commission was concerned. The District received notification that state funds could be available as early as November, 2009. The District needed to raise funds for its 58% portion of the master plan. The Bond Issue attempts were unsuccessful.

The District tried a new approach for operating funds in November 2012 by putting a 1% earned income tax on the ballot. The issue failed, and the district has tried three additional times since then and the results changed on May 5th, 2015. The voters approved a 1% Earned Income Tax for a period of 10 years. Collections begin in January 2016. This levy is expected to bring in \$4,100,000 in revenue each year for 10 years.

Externally, the State of Ohio was found by the Ohio Supreme Court (DeRolph case) in March 1997 to be operating an unconstitutional system of school funding, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth.

Toward the end of the 2005 fiscal year, a funding plan was presented by the state that phases out certain areas of local tax revenue. The impact on the District and its tax payers for future years has been quite significant.

During fiscal year 2006, the state began its planned phase out of personal tangible property tax. School Districts were to be held harmless through a fixed rate adjustment, resulting from commercial activity tax (CAT) revenue, through fiscal year 2014. After that period, a phase out was to begin until the revenue was to be totally phased out in 2018. The phase out has now been accelerated. The last payment the district received will be in fiscal year 2017.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

Other items of importance that occurred during the 2016 fiscal year are as follows:

- In July 2015, the District hired Dr. John P. Kronour, as Superintendent of Northeastern Local School District.
- In November 2015, the District implemented Bonefish Systems, Inc. for the accounting and payroll departments. It is an auditing feature to help catch duplicate payments made to vendors, invalid payments, and helps to safeguard against fraud.
- In March 2016, the District settled with Navistar regarding the devaluation of their property. The District agreed to a valuation of \$17,250,000 for CY15 - CY18. This same property was valued at over \$40 million dollars in 2007.
- The district approved a Capital Improvement Plan in November 2014. The District continues to update and utilize the plan.
- The district approved a change in their Natural Gas Supply Program from Constellation to Direct Energy, but continues to utilize the EPC for the consortium for the program. The contract is from July 2015 to June 2017.
- The district approved a set monthly fee for Preschool beginning August 2015.
- The Board of Education approved a contract with Chris Ashley, Food Service Director for Springfield CSD, in May 2015 to help implement changes for the Northeastern LSD Food Service Department to become self-supporting.
- There was a 2.75% change on the base salary for certified employees and a 2% change on the base salary for classified employees during FY 16. This was the first increase on the base for staff in several years.
- The District had no increase in medical, dental, or vision insurance for FY 16.
- The District Finance Committee, made up of the Superintendent, Treasurer, administrators, community members and parents, as well as one board member, continued to promote fiscal wellness in the district and to ascertain thoughts and ideas on what the community would like to see in the future with cuts and spending.
- The District changed their Interscholastic Sports and Activity Pay-to-Participate Policy during fiscal year 2015 to state that school fees must be current in order to pay to participate in extracurricular activities. The District continued with the elimination of drug testing costs from the general fund, limited district professional development costs, and limited general fund field trips.
- A \$431,000 English Language Arts Adoption was approved by the Board in May 2016.
- The Board continues to operate a virtual school on and off-campus. This was done to reach some students who otherwise may drop out of school and/or just need a few credits to graduate. Some of these students prefer not to attend school full-time and prefer less structure than a classroom environment.

The Board members of the District continue to be extremely concerned about the school funding issues. The local superintendents and treasurers meet with the local legislators on a monthly basis. They continually work toward goals to raise awareness regarding the school funding crisis in the State of Ohio. They continue to participate in grass roots initiatives to improve public educational funding in the state of Ohio.

Information regarding the District's initiatives can be found on the District's website, <http://www.nelsd.org>. This has been done in an effort to further communicate with our constituents.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

In conclusion, the Northeastern Local School District has committed itself to financial excellence for many years. The School District's system of financial planning, budgeting, and internal financial controls are highly regarded. It becomes increasingly difficult to deliver an excellent education with the tight economic times, and the continual eroding of the personal property tax base in the District. However, we have faith that our students will become a top priority with the legislature and their ongoing school funding issues. The School District plans to continue its sound fiscal management to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Denise Robinson, Treasurer and Chief Fiscal Officer at Northeastern Local School District, 1414 Bowman Road, Springfield, Ohio 45502 or email at deniserobinson@nelsd.org.

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF NET POSITION
JUNE 30, 2016**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 8,739,204
Cash and Cash Equivalents in Segregated Accounts	6,000
Cash and Cash Equivalents with Fiscal Agents	11,764
Accrued Interest Receivable	8,434
Materials and Supplies Inventory	107,247
Accounts Receivable	74,248
Intergovernmental Receivable	371,251
Prepaid Items	32,778
Property Taxes Receivable	12,882,869
Income Tax Receivable	570,059
Capital Assets, net	15,433,034
<i>Total Assets</i>	38,236,888
 Deferred Outflows of Resources:	
Pension	4,357,273
 Liabilities:	
Accounts Payable	487,777
Accrued Wages	2,604,174
Intergovernmental Payable	659,477
Matured Bonds Payable	10,000
Matured Interest Payable	1,764
Accrued Interest Payable	2,482
Accrued Vacation Leave Payable	93,173
Compensated Absences Payable	130,018
Long-Term Liabilities:	
Due Within One Year	739,803
Due in More Than One Year:	
Net Pension Liability	45,090,121
Other Amounts Due in More Than One Year	1,839,120
<i>Total Liabilities</i>	51,657,909
 Deferred Inflows of Resources:	
Property Taxes Levied for the Next Fiscal Year	9,849,320
Pension	3,919,807
Unamortized Premium on Bonds	72,821
<i>Total Deferred Inflows of Resources</i>	13,841,948
 Net Position:	
Net Investment in Capital Assets	14,046,777
Restricted for Debt Service	912,283
Restricted for Capital Outlay	552,283
Restricted for Other Purposes	183,215
Unrestricted	(38,600,254)
Total Net Position	\$ (22,905,696)

See accompanying notes to the basic financial statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental Activities:				
Instruction:				
Regular	\$ 14,859,188	\$ 2,285,495	\$ 58,228	\$ (12,515,465)
Special	3,656,402		871,800	(2,784,602)
Vocational	728,913		105,280	(623,633)
Student Intervention Services	21,281			(21,281)
Other	396,257			(396,257)
Support Services:				
Pupils	1,774,426		209,013	(1,565,413)
Instructional Staff	1,285,981	1,980	12,626	(1,271,375)
Board of Education	142,587			(142,587)
Administration	2,337,776			(2,337,776)
Fiscal	785,045			(785,045)
Operation and Maintenance of Plant	2,310,274			(2,310,274)
Pupil Transportation	1,961,171			(1,961,171)
Central	25,124			(25,124)
Operation of Non-Instructional Services	1,400,503	554,122	800,434	(45,947)
Extracurricular Activities	1,025,889	311,674	130	(714,085)
Interest and Fiscal Charges	51,229			(51,229)
Total Governmental Activities	\$ 32,762,046	\$ 3,153,271	\$ 2,057,511	\$ (27,551,264)
General Revenues:				
Grants and Entitlements not Restricted to Specific Programs				15,306,117
Gifts and Donations				48,394
Payments in Lieu of Taxes				6,000
Investment Earnings				84,274
Miscellaneous				85,332
Property and Other Local Taxes				13,068,271
Income Taxes				815,967
Rent				1,280
Total General Revenues				29,415,635
Change in Net Position				1,864,371
Net Position Beginning of Year				(24,770,067)
Net Position End of Year				\$ (22,905,696)

See accompanying notes to the basic financial statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	<u>General Fund</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$7,066,569	\$510,643	\$1,161,992	\$8,739,204
Cash and Cash Equivalents in Segregated Accounts			6,000	6,000
Cash and Cash Equivalents with Fiscal Agents			11,764	11,764
Materials and Supplies Inventory	89,266		13,082	102,348
Accrued Interest Receivable	8,434			8,434
Accounts Receivable	74,248			74,248
Interfund Receivable	129,939			129,939
Intergovernmental Receivable	144,359		226,892	371,251
Prepaid Items	8,299		24,479	32,778
Property Taxes Receivable	12,057,544	417,957	407,368	12,882,869
Income Taxes Receivable	570,059			570,059
Total Assets	<u>20,148,717</u>	<u>928,600</u>	<u>1,851,577</u>	<u>22,928,894</u>
Liabilities:				
Current Liabilities:				
Accounts Payable	486,997		780	487,777
Accrued Wages	2,396,295		207,879	2,604,174
Interfund Payable			129,939	129,939
Intergovernmental Payable	627,810		31,667	659,477
Matured Bonds Payable			10,000	10,000
Matured Interest Payable			1,764	1,764
Compensated Absences Payable	117,796		12,222	130,018
Total Liabilities	<u>3,628,898</u>		<u>394,251</u>	<u>4,023,149</u>
Deferred Inflows of Resources:				
Property Taxes Levied for the Next Fiscal Year	9,154,384	374,501	320,435	9,849,320
Delinquent Property Tax Revenue not Available	538,746	11,678	11,004	561,428
Unavailable Grant Revenues	55,345		56,021	111,366
Total Deferred Inflows of Resources	<u>9,748,475</u>	<u>386,179</u>	<u>387,460</u>	<u>10,522,114</u>
Fund Balances:				
Nonspendable	97,565		37,561	135,126
Restricted	11,000	542,421	1,075,535	1,628,956
Assigned	966,858		121,087	1,087,945
Unassigned	5,695,921		(164,317)	5,531,604
Total Fund Balances	<u>6,771,344</u>	<u>542,421</u>	<u>1,069,866</u>	<u>8,383,631</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$20,148,717</u>	<u>\$928,600</u>	<u>\$1,851,577</u>	<u>\$22,928,894</u>

See accompanying notes to the basic financial statements.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2016**

Total Governmental Fund Balances		\$8,383,631
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:</p>		
Land	268,349	
Depreciable capital assets	33,305,813	
Accumulated depreciation	<u>(18,141,128)</u>	
Total capital assets		15,433,034
<p>Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds:</p>		
Delinquent Property Taxes	561,428	
Unavailable Grant Revenue	<u>111,366</u>	
		672,794
Unamortized premiums on bonds issued are not recognized in the funds		(72,821)
Federal donated commodities are not reported in the funds.		4,899
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(2,482)
<p>The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:</p>		
Deferred Outflows - Pension	4,357,273	
Deferred Inflows - Pension	(3,919,807)	
Net Pension Liability	<u>(45,090,121)</u>	
		(44,652,655)
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:</p>		
Bonds and notes payable	(1,185,000)	
Compensated absences	(1,361,654)	
Capital leases	<u>(125,442)</u>	
Total liabilities		<u>(2,672,096)</u>
Net Position of Governmental Activities		<u><u>(\$22,905,696)</u></u>

See accompanying notes to the basic financial statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>General Fund</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property and Other Local Taxes	\$ 12,271,095	\$ 430,407	\$ 383,640	\$ 13,085,142
Income Taxes	815,967			815,967
Intergovernmental	15,491,243	67,009	1,852,074	17,410,326
Interest	90,065		495	90,560
Tuition and Fees	2,271,579			2,271,579
Rent	1,280			1,280
Extracurricular Activities	114,621		199,033	313,654
Gifts and Donations	33,427		14,967	48,394
Customer Sales and Services	13,916		554,122	568,038
Payments in Lieu of Taxes	6,000			6,000
Miscellaneous	53,485	1,000	6,575	61,060
Total Revenues	<u>31,162,678</u>	<u>498,416</u>	<u>3,010,906</u>	<u>34,672,000</u>
Expenditures:				
Current:				
Instruction:				
Regular	14,468,627	387,444	68,377	14,924,448
Special	2,863,201		794,236	3,657,437
Vocational	705,110			705,110
Student Intervention Services	11,115			11,115
Other	392,889		3,368	396,257
Support Services:				
Pupils	1,560,189		215,731	1,775,920
Instructional Staff	1,277,826		14,016	1,291,842
Board of Education	142,587			142,587
Administration	2,329,001	9	8	2,329,018
Fiscal	771,840	7,652	7,502	786,994
Operation and Maintenance of Plant	1,996,116	201,018	5,211	2,202,345
Pupil Transportation	1,838,025	119,141		1,957,166
Central	16,841		8,283	25,124
Operation of Non-Instructional Services		5,600	1,388,825	1,394,425
Extracurricular Activities	728,731	17,676	215,538	961,945
Capital Outlay	172,014			172,014
Debt Service:				
Principal	53,067		390,000	443,067
Interest			53,863	53,863
Total Expenditures	<u>29,327,179</u>	<u>738,540</u>	<u>3,164,958</u>	<u>33,230,677</u>
Excess of Revenues Over (Under) Expenditures	<u>1,835,499</u>	<u>(240,124)</u>	<u>(154,052)</u>	<u>1,441,323</u>
Other Financing Sources/(Uses):				
Transfers In			48,383	48,383
Inception of Capital Lease	172,014			172,014
Transfers Out	(48,383)			(48,383)
Total Other Financing Sources/(Uses)	<u>123,631</u>		<u>48,383</u>	<u>172,014</u>
Net Change in Fund Balances	1,959,130	(240,124)	(105,669)	1,613,337
Fund Balance at Beginning of Year	<u>4,812,214</u>	<u>782,545</u>	<u>1,175,535</u>	<u>6,770,294</u>
Fund Balance at End of Year	<u>\$ 6,771,344</u>	<u>\$ 542,421</u>	<u>\$ 1,069,866</u>	<u>\$ 8,383,631</u>

See accompanying notes to the basic financial statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Net Change in Fund Balances - Total Governmental Funds \$1,613,337

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

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Fixed Asset Additions	245,318	
Current Year Depreciation	(793,221)	
Fixed Asset Deletions	<u>(112,181)</u>	(660,084)

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

Property Taxes	(16,871)	
Intergovernmental Revenue	(48,754)	
Accounts Receivable	(4,961)	
Accrued Interest	<u>(5,792)</u>	(76,378)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of Net Position. In the current year, these amounts consisted of:

Bond principal retirement	390,000	
Capital lease payments	<u>53,067</u>	
Total long-term debt repayment		443,067

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on Net Position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Current Year Impact of Long-Term Debt Premium	24,272
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Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 2,558,477

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities (1,939,410)

In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expensed when due. (2,634)

Donated commodities received and used are not recognized in the funds. 3,277

Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. (172,014)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Compensated Absences	<u>72,461</u>
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Change in Net Position of Governmental Activities \$1,864,371

See accompanying notes to the basic financial statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Positive (Negative)
Revenues:				
Property and Other Local Taxes	\$ 11,509,252	\$ 11,209,252	\$ 11,041,905	\$ (167,347)
Income Taxes		240,000	245,908	5,908
Intergovernmental	10,481,081	10,556,533	15,227,260	4,670,727
Interest	12,632	38,947	56,179	17,232
Tuition and Fees	1,721,028	1,581,849	2,281,737	699,888
Rent		887	1,280	393
Gifts and Donations	5	1,866	2,692	826
Customer Sales and Services		9,648	13,916	4,268
Extracurricular Activities		52,378	75,553	23,175
Revenue in Lieu of Taxes		4,160	6,000	1,840
Miscellaneous	14,596	2,217	3,197	980
Total Revenues	<u>23,738,594</u>	<u>23,697,737</u>	<u>28,955,627</u>	<u>5,257,890</u>
Expenditures:				
Current:				
Instruction:				
Regular	14,438,054	14,307,383	14,307,383	-
Special	2,948,311	2,863,827	2,863,827	-
Vocational	725,994	704,997	704,997	-
Other	196,515	403,410	403,410	-
Support Services:				
Pupils	1,860,581	1,624,198	1,624,198	-
Instructional Staff	1,333,318	1,298,200	1,298,200	-
Board of Education	134,778	150,571	150,571	-
Administration	2,511,269	2,346,682	2,346,682	-
Fiscal	819,423	780,685	780,685	-
Operation and Maintenance of Plant	2,706,595	2,235,962	2,235,962	-
Pupil Transportation	1,940,670	1,832,244	1,832,244	-
Central	10,400	16,489	16,489	-
Operation of Non-Instructional Services		0	0	-
Extracurricular Activities	842,152	733,541	733,541	-
Total Expenditures	<u>30,468,060</u>	<u>29,298,189</u>	<u>29,298,189</u>	<u>-</u>
Excess of Revenues Over (Under) Expenditures	<u>(6,729,466)</u>	<u>(5,600,452)</u>	<u>(342,562)</u>	<u>(5,257,890)</u>
Other Financing Sources/(Uses):				
Proceeds from Sale of Fixed Assets		2,810	4,054	1,244
Transfers Out	(75,000)	(48,383)	(48,383)	-
Refund of Prior Year Expenditures		183,257	264,338	81,081
Advances In	27,205	18,860	27,205	8,345
Advances Out	(30,000)	(129,939)	(129,939)	-
Total Other Financing Sources/(Uses)	<u>(77,795)</u>	<u>26,605</u>	<u>117,275</u>	<u>90,670</u>
Net Change in Fund Balance	(6,807,261)	(5,573,847)	(225,287)	5,348,560
Fund Balance at Beginning of Year	6,509,430	6,509,430	6,509,430	-
Prior Year Encumbrances Appropriated	<u>202,809</u>	<u>202,809</u>	<u>202,809</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ (95,022)</u>	<u>\$ 1,138,392</u>	<u>\$ 6,486,952</u>	<u>\$ 5,348,560</u>

See accompanying notes to the basic financial statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016**

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 17,843	\$ 148,672
Investments		
In Segregated Accounts	10,000	
Receivables:		
Accrued Interest	166	
Total Assets	28,009	148,672
Liabilities:		
Due to Students		148,672
Total Current Liabilities		\$ 148,672
Net Position		
Held in Trust for Scholarships	\$ 28,009	

See accompanying notes to the basic financial statements

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**STATEMENT OF CHANGE IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	Private Purpose Trust
	Scholarship
Additions	
Gifts and Contributions	\$ 4,300
Total Additions	4,300
Deductions	
Payments in Accordance with Trust Agreements	5,329
Total Deductions	5,329
Change in Net Position	(1,029)
Net Position Beginning of Year	29,038
Net Position End of Year	\$ 28,009

See accompanying notes to the basic financial statements

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1916 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 118 square miles. It is located in Clark County, and includes the Villages of South Vienna and Catawba, and the Townships of Moorefield, Pleasant, and Harmony.

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 Northeastern 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; (3) the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; (4) 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. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

The School District participates in the Miami Valley Educational Computer Association (MVECA), Springfield/Clark County Career Technical Center, and the Southwestern Ohio Educational Purchasing Council (SOEPC) which are defined as jointly governed organizations, and the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), which is defined as an insurance purchasing pool. These organizations are presented in Note 18 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. 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.

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

2. Fund Financial Statements:

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

B. Fund Accounting

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

1. Governmental Funds:

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Permanent Improvement Capital Projects Fund - The permanent improvement capital projects fund accounts for a property tax levy to be used for the acquisition, construction, or improvement of capital facilities other than those financed by the private purpose trust fund.

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

2. Fiduciary Fund Types:

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. The School District has ten private purpose trust funds. Nine account for scholarship programs for students. The other is a memorial fund which accounts for monies for construction and maintenance of a memorial for a past graduate. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The School District's agency fund accounts for those student activity programs which have student participation in the activity and have students involved in the management of the program. This fund typically includes student activities which consist of a student body, student president, student treasurer, and faculty advisor.

C. Measurement Focus

1. Government-wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the School District are included on the Statement of Net Position. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

2. Fund Financial Statements:

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The private purpose trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

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

1. Revenues - Exchange and Non-exchange Transactions:

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

2. Deferred Outflows/Inflows of Resources:

In addition to assets, the Statement of Net Position and Balance Sheet will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 11.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition to liabilities, the Statement of Net Position and Balance Sheet report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources include property taxes, pension, unamortized premium on bonds and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes, intergovernmental grants, and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 11)

3. 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.

4. Expenses/Expenditures:

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

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

E. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, 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 expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund/function/object level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate that was in effect at the time the final appropriations were passed by the Board of Education. Prior to fiscal year-end, the School District requested an amended certificate of estimated resources that reflects actual revenue for the fiscal year.

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

F. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled, except the private purpose trust fund. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet. The School District utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance in this account is presented on the financial statements as "Cash and Cash Equivalents with Fiscal Agents" and represents deposits. The School District has segregated bank accounts for monies held separate from the School District's central bank account. These interest bearing depository accounts are presented in the combined balance sheet as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the School District treasury.

During fiscal year 2016, investments were limited to certificates of deposit, First American Treasury Money Market funds, Toyota Motor Credit Commercial Paper, Abbott Laboratories Commercial Paper, JP Morgan Securities Commercial Paper, Federal Home Loan Bank Notes, Federal National Mortgage Association Notes, and Federal Home Loan Mortgage Corporation (FHLMC) Notes.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$90,065 which includes \$20,715 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2016, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

I. Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10-99 years
Buildings and Improvements	20-100 years
Furniture, Fixtures and Equipment	5-50 years
Vehicles	20 years

J. Compensated Absences

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

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the funds from which the employees will be paid.

K. Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the governmental funds. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. General obligation bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

L. Net Position

Net position represents the difference between asset and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. 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.

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available. None of the restricted net position is restricted by enabling legislation.

M. Fund Balance

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

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

N. Interfund Activity

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

Interfund transfers for the year ended June 30, 2016 consisted of a transfer from the General fund to the District's food service fund, in the amount of \$48,383, as reported on the fund financial statements.

Interfund transfers are eliminated on the entity-wide statement of activities and statement of net position.

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2016.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Estimates

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

3. CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2016, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. These changes were incorporated in the School District's fiscal year 2016 note disclosures; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School District.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School District.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the School District.

4. ACCOUNTABILITY AND COMPLIANCE

The School District had deficit fund balances in the following special revenue funds as of June 30, 2016:

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

4. ACCOUNTABILITY AND COMPLIANCE (Continued)

Fund	Amount
Food Service	\$75,305
Preschool Grant	4,653
Title VI-B	42,354
Title I	25,264

The general fund is liable for deficits in these funds and will provide operating transfers when cash is required, not when accruals occur.

5. BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the fund liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as an assigned fund balance (GAAP).
4. Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance	
GAAP Basis	\$1,959,130
Net Adjustment for Revenue Accruals	(2,083,468)
Net Adjustment for Expenditure Accruals	516,097
Encumbrances	(475,168)
Advances	(129,939)
Prepays	5,801
Funds Budgeted Elsewhere	(17,740)
Budget Basis	(\$225,287)

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

6. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such 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 monies are public deposits that the Board of Education has identified as not required for use within the current two 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 monies 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.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies are to 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, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

6. DEPOSITS AND INVESTMENTS (Continued)

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand:

At year end, the School District had \$6,000 in cash on hand which is included on the financial statements of the School District as "Cash and Cash Equivalents in Segregated Accounts."

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

B. Deposits:

At year-end, the carrying amount of the School District's deposits was \$ 4,941,772 and the bank balance was \$6,448,384. \$6,106,997 of the bank balance was covered by federal depository insurance and \$341,387 was considered uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

6. DEPOSITS AND INVESTMENTS (Continued)

C. Investments:

The District's investments at June 30, 2016 are summarized below:

<u>Investment</u>	<u>6/30/2016</u>		<u>Credit Rating</u>	<u>% of Portfolio</u>
	<u>0-1 Years Before Maturity</u>	<u>1-5 Years Before Maturity</u>		
First American Treasury Money Market	\$ 1,509			0.04%
JP Morgan Securities Commercial Paper	194,969		P-1, A-1	4.89%
Abbot Laboratories Commercial Paper	189,924		P-1, A-1	4.77%
Toyota Motor Credit Commercial Paper	194,978		P-1, A-1	4.89%
American Express Centurion Certificate of Deposit		\$ 442,336		11.10%
Ally Bank Certificate of Deposit		239,354		6.00%
Capital One Bank Certificate of Deposit		248,459		6.23%
First Bank Puerto Rico Certificate of Deposit		251,541		6.31%
Federal Home Loan Mortgage Corporation (FHLMC)		615,249	Aaa, AA+	15.44%
Federal National Mortgage Association (FNMA) Notes		888,170	Aaa, AA+	22.28%
Federal Home Loan Bank Notes (FHLB)	390,666	328,556	Aaa, AA+	18.05%
	<u>\$972,046</u>	<u>\$3,013,665</u>		<u>100.00%</u>

The District's investments in federal agency securities, negotiable certificates of deposit and commercial paper are valued using quoted market prices (level 1 inputs).

D. Custodial Credit Risk:

The risk that, in the event of a failure of a counter party, the District will not be able to recover the value of its investments or collateral securities that is in the possession of an outside party. The District employs the use of "safekeeping" accounts to hold and maintain custody of its investments as identified within this policy and as a means of mitigating this risk.

E. Interest Rate Risk:

Interest rate risk is the risk that the District will incur fair value losses arising from rising interest rates. Such risk is mitigated by the investment policy by limiting investments to certain maximum maturities. Per the Board of Education investment policy, investments are to have a maximum maturity of five years unless the investment is matched to a specific obligation or debt of the District.

F. Credit Risk:

The Ohio Revised Code limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations at the time of purchase.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)**

6. DEPOSITS AND INVESTMENTS (Continued)

G. Concentration of Credit Risk:

The District's investment policy provides for diversification to avoid undue concentration in securities of one type or securities. This restriction does not apply to obligations guaranteed by the U.S. government. Of the District's total investments, .04 percent is invested in a money market fund; 4.89 percent is invested in JP Morgan Securities Commercial Paper; 4.77 percent is invested in Abbot Laboratories Credit Commercial Paper; 4.89 percent is invested in Toyota Motor Credit Commercial Paper; 11.10 percent is invested in American Express CD; 6.00 percent is invested Ally Bank CD; 6.23 percent is invested Capital One Bank CD; 6.31 percent is invested First Bank Puerto Rico CD; 15.44 percent are Federal Home Loan Mortgage Corporation; 22.28 percent is invested in Federal National Mortgage Association Notes; and 18.05 percent is invested in Federal Home Loan Bank Notes.

The classification of cash and cash equivalents, and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
Cash and Cash Equivalent - Basic Financial Statements	\$ 8,923,483	\$ 10,000
Cash on Hand	(6,000)	
Investments:		
CDARS Investment	10,000	(10,000)
First American Treasury Money Market	(1,509)	1,509
JP Morgan Securities Commercial Paper	(194,969)	194,969
Abbot Laboratories Commercial Paper	(189,924)	189,924
Toyota Motor Credit Commercial Paper	(194,978)	194,978
American Express Centurion Certificate of Deposit	(442,336)	442,336
Ally Bank Certificate of Deposit	(239,354)	239,354
Capital One Bank Certificate of Deposit	(248,459)	248,459
First Bank Puerto Rico Certificate of Deposit	(251,541)	251,541
Federal Home Loan Mortgage Corporation (FHLMC)	(615,249)	615,249
Federal National Mortgage Association (FNMA) Notes	(888,170)	888,170
Federal Home Loan Bank Notes (FHLB)	(719,222)	719,222
Total	\$ 4,941,772	\$ 3,985,711

7. PROPERTY TAXES

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

7. PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed values as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Public utility real and personal property taxes received in calendar year 2016 became a lien on December 31, 2014, were levied after April 1, 2015, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Public utility tangible personal property currently is assessed at varying percentages of true value public utility real property is assessed at thirty-five percent of true value. 2015 public utility property taxes became a lien December 31, 2014, are levied after April 1, 2015, and are collected in 2015 with real property taxes. 2015 tangible personal property taxes are levied after April 1, 2014, on the value as of December 31, 2014. Collections are made in 2015. Tangible personal property assessments are twenty-five percent of true value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

	2015 Second -Half Collections		2016 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$456,115,460	97.58%	\$454,845,960	97.49%
Public Utility Personal	11,299,440	2.42%	11,717,710	2.51%
Total	<u>\$467,414,900</u>	<u>100.00%</u>	<u>\$466,563,670</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$46.14		\$48.08	

The School District receives property taxes from Clark and Champaign Counties. The County Auditor periodically advances 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.

Accrued property taxes receivable represents real property and public utility property taxes which are measurable as of June 30, 2016, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset to deferred inflows of resources. At June 30, 2016, \$2,364,414 was available as an advance to the general fund, \$31,778 in the permanent improvement fund, and \$75,929 in the non-major governmental funds. On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been reported as deferred inflows of resources.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

8. RECEIVABLES

Receivables at June 30, 2016, consisted of property taxes, income taxes, accounts (tuition and student fees), intergovernmental grants, interfund and interest. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables follows:

Governmental Activities:	
SERS Overcharge	\$52,538
Motor Fuel Tax Reimbursement	2,807
Casino Tax Money	89,014
Title VI-B Grant	166,567
Title I Grant	60,180
Title IIA Grant	145
Total Intergovernmental Receivables	<u>\$371,251</u>

9. CAPITAL ASSETS

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

	Ending Balance 6/30/2015	Additions	Deletions	Ending Balance 6/30/2016
Governmental Activities:				
Land	\$268,349			\$268,349
Total Capital Assets, not being depreciated	<u>268,349</u>			<u>268,349</u>
Land Improvements	677,227			677,227
Buildings and Improvements	26,605,520	41,273		26,646,793
Furniture Fixture & Equipment	3,896,529	88,595	(195,227)	3,789,897
Vehicles	2,478,125	115,450	(401,679)	2,191,896
Total Capital Assets, being depreciated	<u>33,657,401</u>	<u>245,318</u>	<u>(596,906)</u>	<u>33,305,813</u>
Less: Accumulated Depreciation :				
Land Improvements	(384,887)	(6,939)		(391,826)
Buildings and Improvements	(13,906,051)	(508,698)		(14,414,749)
Furniture Fixture & Equipment	(1,923,557)	(169,315)	142,968	(1,949,904)
Vehicles	(1,618,137)	(108,269)	341,757	(1,384,649)
Total Accumulated Depreciation	<u>(17,832,632)</u>	<u>(793,221)</u>	<u>484,725</u>	<u>(18,141,128)</u>
Total Capital Assets being depreciated, net	<u>15,824,769</u>	<u>(547,903)</u>	<u>(112,181)</u>	<u>15,164,685</u>
Governmental Activities Capital Assets, Net	<u>\$16,093,118</u>	<u>(\$547,903)</u>	<u>(\$112,181)</u>	<u>\$15,433,034</u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

9. CAPITAL ASSETS (Continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$305,871
Special	53,787
Vocational	40,556
Support Services:	
Pupil	33,508
Instructional Staff	30,977
Administration	51,830
Fiscal	16,233
Operation and Maintenance of Plant	40,293
Pupil Transportation	109,464
Operation of Non-Instructional Services	63,167
Extracurricular Activities	47,535
Total Depreciation Expense	\$793,221

10. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft or, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the School District contracted with the Southwestern Ohio Educational Purchasing Council for property and fleet insurance, liability insurance, crime, terrorism, and automobile coverage. Coverage provided through this Council is as follows:

Building and Contents - replacement cost; including Boiler and Machinery	\$250,000,000
Excess Property	\$350,000,000
Flood	\$10,000,000
Earthquake	\$25,000,000
Automobile Liability (\$0 deductible)	\$1,000,000
General Liability Per Occurrence	\$1,000,000
Sexual Molestation	\$2,000,000
Site Pollution	\$1,000,000

Settled claims have not exceeded this commercial coverage in the past three years. There have been no significant reductions in insurance coverage from last year.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

10. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2016, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (Note 18). 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. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling fund" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Incorporated provides administrative, cost control, and actuarial services to the GRP.

11. DEFINED BENEFIT PENSION PLANS

A. Net Pension Liability

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

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

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).

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

B. 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 Resource.

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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Northeastern Local 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. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2016.

The Northeastern Local School District's contractually required contribution to SERS was \$609,694 for fiscal year 2016. Of this amount \$129,166 is reported as an intergovernmental payable.

C. Plan Description - State Teachers Retirement System (STRS)

Plan Description – Northeastern Local 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 will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five 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.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The Northeastern Local School District's contractually required contribution to STRS was \$1,948,783 for fiscal year 2016. Of this amount \$332,647 is reported as an intergovernmental payable.

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$8,707,464	\$36,382,657	\$ 45,090,121
Proportion of the Net Pension Liability	0.1525993%	0.13164438%	
Pension Expense	\$368,456	\$1,570,954	\$1,939,410

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Difference between expected and actual experience	\$140,206	\$1,658,590	\$1,798,796
School District Contributions subsequent to the measurement date	609,694	1,948,783	2,558,477
Total Deferred Outflow of Resources	<u>\$749,900</u>	<u>\$3,607,373</u>	<u>\$4,357,273</u>
Deferred Inflows of Resources			
Changes in proportion and differences between School District contributions and proportionate share of contributions	560,755	453,944	1,014,699
Net difference between projected and actual earnings on pension plan investments	288,507	2,616,601	2,905,108
Total Deferred Inflows of Resources	<u>\$849,262</u>	<u>\$3,070,545</u>	<u>\$3,919,807</u>

\$2,558,477 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2017	(\$283,927)	(\$703,966)	(\$987,893)
2018	(283,927)	(703,966)	(987,893)
2019	(284,591)	(703,966)	(988,557)
2020	<u>143,389</u>	<u>699,943</u>	<u>843,332</u>
	<u>(\$709,056)</u>	<u>(\$1,411,955)</u>	<u>(\$2,121,011)</u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	<u>15.00</u>	7.50
Total	<u><u>100.00 %</u></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 Rate- Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$12,074,124	\$8,707,464	\$5,872,459

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

F. Actuarial Assumptions - STRS

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

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

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$50,538,254	\$36,382,657	\$24,411,988

G. Social Security System

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

12. POST-EMPLOYMENT BENEFITS

A. School Employee 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.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

12. POST-EMPLOYMENT BENEFITS (Continued)

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, SERS did not allocate any employer contributions to the Health Care Fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, prorated 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.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016, 2015, and 2014 were \$77,178, \$117,209 and \$127,860, respectively. For fiscal year 2016, 80.57 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2015 and 2014.

B. State Teachers Retirement System

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer 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 which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions 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 \$143,458, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

13. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

13. OTHER EMPLOYEE BENEFITS (Continued)

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 280 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, unused sick leave up to the maximum of 280 days. Administrators retiring in fiscal year 2016 were eligible to receive payment of 40 percent of accrued, unused sick leave up to the maximum of 280 days.

B. Insurance Benefits

The School District provides life insurance to most employees through Sun Life Insurance. Medical/surgical is offered to employees through EPC Insurance Consortium.

C. Special Termination Benefit

The School District offered a special termination benefit plan through fiscal year 2012. To participate in the plan, an employee must opt for this program the first time they are eligible to retire with 30 years of experience, or the first year eligible according to STRS. For certified staff, the special termination benefit amount is \$60,000, payable over four years after retirement in four equal payments beginning on June 1, 2012, and ending June 1, 2015. For classified employees, the amount is \$5,000, if full-time, \$2,500 if part-time, payable as a lump sum. For the School District, the liability as of June 30, 2016 is \$0.

14. CAPITAL LEASES – LESSEE DISCLOSURE

The School District has entered into several lease agreements for copiers for the district. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 “Accounting for Leases”, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the general purpose financial statements for governmental funds. During fiscal year 2016, the School District entered into three new lease agreements, replacing expired leases, for copiers for the district. The items are being capitalized as part of fixed assets. A corresponding liability is included in governmental activities general long term debt. Principal payments in fiscal year 2016 totaled \$53,067. Future minimum lease payments are as follows:

Fiscal Year Ending	Amount
2017	\$46,572
2018	46,572
2019	19,308
2020	12,990
	\$125,442
	\$125,442

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

15. LONG-TERM OBLIGATIONS

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

	Amount Outstanding June 30, 2015	Additions	Deductions	Amount Outstanding June 30, 2016	Amounts Due Within One Year
Governmental Activities:					
General Obligation Bonds:					
2005 Refunding GO Bonds					
3% to 5.75% 14 years	\$1,575,000		\$390,000	\$1,185,000	\$395,000
Premium on 2005 Refunding	97,093		24,272	72,821	
Total Bond Debt	1,672,093		414,272	1,257,821	395,000
Capital Leases	6,495	\$172,014	53,067	125,442	46,572
Compensated Absences	1,293,334	236,025	260,878	1,268,481	298,231
Termination Benefits	46,904		46,904		
Total Governmental Activities	3,018,826	\$408,039	\$775,121	2,651,744	739,803
Unamortized Premium	(97,093)			(72,821)	
Total Long Term Liabilities	<u>\$2,921,733</u>			<u>\$2,578,923</u>	<u>\$739,803</u>
Net Pension Liability:					
STRS	32,456,100	5,851,041	1,924,484	36,382,657	
SERS	8,370,395	946,698	609,629	8,707,464	
Total Net Pension Liability	<u>40,826,495</u>	<u>6,797,739</u>	<u>2,534,113</u>	<u>45,090,121</u>	

2005 Refunding General Obligation Bonds – On September 15, 2005, the School District issued School Improvement Refunding General Obligation Bonds, with semi-annual payments due on June 1 and December 1 of each year, and interest payable beginning December 1, 2005. The refunding bonds are issued for the purpose of refunding outstanding general obligation bonds originally issued for the purpose of new construction, improvements, renovations, and additions to school facilities and providing equipment, including educational equipment and curriculum materials, furnishings and site improvements. The refunding bonds will be paid from the bond retirement fund.

The capital lease obligation will be paid from the general fund.

Compensated absences will be paid from the fund from which the employees' salaries are paid.

The School District's overall legal debt margin was \$41,702,746 with an un-voted debt margin of \$466,564, and an energy conservation debt margin of \$4,199,073 at June 30, 2016.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2016, are as follows:

Fiscal Year Ending June 30,	2005 Refunding GO Bonds		
	Principal	Interest	Totals
2017	\$395,000	\$35,738	\$430,738
2018	400,000	21,725	421,725
2019	390,000	7,312	397,312
Total	<u>\$1,185,000</u>	<u>\$64,775</u>	<u>\$1,249,775</u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

16. ISSUANCE OF GENERAL OBLIGATION REFUNDING BONDS

On September 15, 2005, the Northeastern Local School District issued \$3,765,000 of General Obligation refunding bonds to provide resources to purchase United States Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$3,765,000 of General Obligation bonds. The School District used the new bonds, previously funded debt service payments, plus \$339,813, to defease the outstanding liability. The refunded portion of the 1996 bonds will be called at the first call date of December 1, 2007. As a result, the in-substance defeasance is considered to be defeased and the liability has been removed from the statement of net position. Until the bonds are called the information will be presented as a note to the financial statements (See Note 17).

17. IN-SUBSTANCE DEFEASANCE OF GENERAL OBLIGATION BONDS

In September 2005, the School District entered into an Escrow Trust Agreement with the Bank of New York. The agreement required that the School District deposit \$4,023,579 into an irrevocable trust with the bank for the payment to final maturity from the 1996 General Obligation Bonds. The funds deposited, per the agreement, purchased U.S. Government Securities in substitution of the general obligations of the School District. The funds deposited, together with interest earned thereon, shall be sufficient to pay semi-annual principal and interest payments, thus providing an in-substance defeasance. The (in-substance) defeasance has occurred for the following General Obligation bonds:

Original Amount	Amount Defeased	Outstanding Amount at 6/30/16
\$5,300,000	\$3,765,000	\$0

18. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL

A. Jointly Governed Organizations

Miami Valley Educational Computer Association - The School District is a participant in the Miami Valley Educational Computer System (MVECA), which is a computer consortium. MVECA is an association of public schools within the boundaries of Clark, Clinton, Fayette, Greene, Madison, and Highland 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 districts. The governing board of MVECA consists of five Superintendents and two Treasurers of member school districts, with four of the five Superintendents and both Treasurers elected by a majority vote of all member school districts except the Greene County Career Center. The fifth Superintendent is from the Greene County Career Center. The School District paid MVECA \$125,721 for services provided during the year. Financial information can be obtained from Thor Sage, Executive Director, at 330 East Enon Road, Yellow Springs, Ohio 45387.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

18. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL

Springfield/Clark County Career Technical Center - The Springfield/Clark County Career Technical Center (CTC) is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the seven participating school districts' elected boards, which possess its own budgeting and taxing authority. One member is appointed from the following: Clark-Shawnee Local School District, Greenon Local School District, Northeastern Local School District, Northwestern Local School District, Southeastern Local School District, Tecumseh Local School District, and the Clark County Educational Service Center. Two members are appointed from the Springfield City School District. To obtain financial information, write to the Springfield/Clark County Career Technical Center, Steven Clark, Treasurer, 1901 Selma Road, Springfield, Ohio 45505-4239.

Southwestern Ohio Educational Purchasing Council -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of over 130 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the Fiscal Agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations.

Payments to SOEPC are made from the general fund. During fiscal year 2016, the School District paid \$1,654 to the SOEPC for membership fees. 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.

B. 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 a fourteen member committee consisting of various GRP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

19. SET-ASIDE CALCULATION

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)**

19. SET-ASIDE CALCULATION (Continued)

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

	Capital Acquisition
Set-aside Reserve Balance as of June 30, 2015	\$ 52,335
Current Year Set-aside Requirement	606,919
Current Year Offsets	(456,027)
Qualifying Disbursements	(207,285)
Totals	(4,058)
Set-aside Balance Carried Forward to Future Fiscal Years	\$0

20. CONTINGENCIES

A. Grants

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

B. Litigation

The School District's attorney estimates that any potential claims against the District not covered by insurance resulting from all other litigation would not materially affect the financial statements of the District.

C. Foundation Funding

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional School Districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation Funding for the School District, therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

21. SIGNIFICANT COMMITMENTS

A. Commitments

The School District had the following significant contractual commitments as of June 30, 2016:

Contractor	Job Description	Amount
Durolast	Roof repair at South Vienna and Northridge Schools	\$291,099

B. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in governmental funds. Encumbrances are reported as a component of assigned, restricted, or committed fund balances since they do not constitute expenditure or liabilities. Outstanding encumbrances in governmental funds as of June 30, 2016 were as follows:

Fund Type	Encumbrances
General	\$475,168
Permanent Improvement	408,529
Other Governmental	6,128
Total	\$889,825

22. INTERFUND RECEIVABLES/PAYABLES

An interfund receivable and payable of \$129,939 reported within the General Fund and Other Governmental Funds respectively, represents the amount due to the General Fund from:

Food Service Fund	\$ 13,985
High Schools That Work Grant	8,313
Title I	28,885
Title IIA	145
Idea Title VIB	78,611
Total	\$ 129,939

The negative cash balance reported within the High Schools That Work Grant, Title I, Title IIA, and Idea Title VIB funds is due to the timing of receipts of federal grant cash requests and state grant requests. The General Fund loaned the food service fund monies to purchase a point of sale system in fiscal year 2016.

23. FUND BALANCE

Fund balance is classified as non-spendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(CONTINUED)**

23. FUND BALANCE (Continued)

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	<u>General Fund</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Non-spendable:				
Inventory	\$89,266		\$13,082	102,348
Prepaid Items	8,299		24,479	32,778
Total Non-spendable	<u>97,565</u>		<u>37,561</u>	<u>135,126</u>
Restricted for:				
Underground Storage Tank	11,000			11,000
Permanent Improvements		\$542,421		542,421
Debt Retirement			972,942	972,942
Union Club			3,000	3,000
Special Trust			34,891	34,891
District Managed Student Activities			24,696	24,696
Auxiliary Services			39,401	39,401
South Vienna Phonics			601	601
Title VI-R Class Reduction			4	4
Total Restricted	<u>11,000</u>	<u>542,421</u>	<u>1,075,535</u>	<u>1,628,956</u>
Assigned for:				
Future Appropriations	373,662			373,662
Public School Support	118,028			118,028
District 5K Fund			5,770	5,770
Hattie Farrell Memorial Fund			2,339	2,339
Latchkey			112,978	112,978
Other Purposes	475,168			475,168
Total Assigned	<u>966,858</u>		<u>121,087</u>	<u>1,087,945</u>
Unassigned	5,695,921		(164,317)	5,531,604
Total Fund Balance	<u>\$6,771,344</u>	<u>\$542,421</u>	<u>\$1,069,866</u>	<u>\$8,383,631</u>

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2016
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
LAST THREE FISCAL YEARS**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
School District's Proportion of the Net Pension Liability	0.1525993%	0.165392%	0.165392%
School District's Proportionate Share of the Net Pension Liability	8,707,464	8,370,395	9,835,331
School District's Covered-Employee Payroll	4,625,410	4,138,528	4,753,764
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	188.25%	202.26%	206.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

Information prior to 2013 is not available

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**FOR THE FISCAL YEAR ENDED JUNE 30, 2016
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM OF OHIO
LAST THREE FISCAL YEARS**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
School District's Proportion of the Net Pension Liability	0.13164438%	0.13343537%	0.13343537%
School District's Proportionate Share of the Net Pension Liability	36,382,657	32,456,100	38,661,494
School District's Covered-Employee Payroll	13,746,314	14,345,823	14,240,285
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	264.67%	226.24%	271.49%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

Information prior to 2013 is not available

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**FOR THE FISCAL YEAR ENDED JUNE 30, 2016
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE SCHOOL DISTRICT'S CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	609,694	609,629	573,600	657,921
Contributions in Relation to the Contractually Required Contributions	<u>(609,694)</u>	<u>(609,629)</u>	<u>(573,600)</u>	<u>(657,921)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District's Covered-Employee Payroll	\$4,354,957	\$4,625,410	\$4,138,528	\$4,753,764
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%

2012	2011	2010	2009	2008	2007
621,403	535,034	806,877	558,472	438,808	550,612
<u>(621,403)</u>	<u>(535,034)</u>	<u>(806,877)</u>	<u>(558,472)</u>	<u>(438,808)</u>	<u>(550,612)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$4,620,097	\$4,256,436	\$5,959,210	\$5,675,528	\$4,468,573	\$5,155,543
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2016
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE SCHOOL DISTRICT'S CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM OF OHIO
LAST TEN FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	1,948,783	1,924,484	1,864,957	1,851,237
Contributions in Relation to the Contractually Required Contributions	<u>(1,948,783)</u>	<u>(1,924,484)</u>	<u>(1,864,957)</u>	<u>(1,851,237)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District's Covered-Employee Payroll	\$13,919,879	\$13,746,314	\$14,345,823	\$14,240,285
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%

2012	2011	2010	2009	2008	2007
1,907,322	1,697,684	1,936,092	2,027,704	1,930,860	1,804,089
<u>(1,907,322)</u>	<u>(1,697,684)</u>	<u>(1,936,092)</u>	<u>(2,027,704)</u>	<u>(1,930,860)</u>	<u>(1,804,089)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$14,671,708	\$13,059,108	\$14,893,015	\$15,597,723	\$14,852,769	\$13,877,608
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK COUNTY**

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

FEDERAL GRANTOR Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Non-Cash Receipts	(1) Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE					
<i>Passed Through Ohio Department of Education</i>					
Child Nutrition Cluster:					
School Breakfast Program	10.553	\$ 54,578		\$ 54,578	
National School Lunch Program:					
Cash Assistance	10.555	388,583		388,583	
Non-Cash Assistance	10.555		\$ 104,345		\$ 104,345
Total National School Lunch Program		<u>388,583</u>	<u>104,345</u>	<u>388,583</u>	<u>104,345</u>
Total Child Nutrition Cluster		<u>443,161</u>	<u>104,345</u>	<u>443,161</u>	<u>104,345</u>
Total U.S. Department of Agriculture		<u>443,161</u>	<u>104,345</u>	<u>443,161</u>	<u>104,345</u>
U.S. DEPARTMENT OF EDUCATION					
<i>Passed Through Ohio Department of Education</i>					
Title I Grants to Local Educational Agencies	84.010	<u>351,482</u>		<u>381,189</u>	
Special Education Cluster (IDEA):					
Special Education Grants to States	84.027	589,259		667,870	
Special Education Preschool Grant	84.173	<u>17,220</u>		<u>17,220</u>	
Total Special Education Cluster (IDEA)		<u>606,479</u>		<u>685,090</u>	
Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grant)	84.367	<u>52,535</u>		<u>53,515</u>	
Total U.S. Department of Education		<u>1,010,496</u>	-	<u>1,119,794</u>	-
Total Receipts and Expenditures of Federal Awards		<u>\$ 1,453,657</u>	<u>\$ 104,345</u>	<u>\$ 1,562,955</u>	<u>\$ 104,345</u>

(1) - There were no amounts passed through to subrecipients.

The accompanying notes are an integral part of this schedule.

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D – FOOD DONATION PROGRAM

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



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

Northeastern Local School District
Clark County
1414 Bowman Road
Springfield, Ohio 45502

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Northeastern Local School District, Clark County, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 22, 2017.

Internal Control Over Financial Reporting

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

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

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

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www.ohioauditor.gov

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

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

Dave Yost
Auditor of State
Columbus, Ohio

March 22, 2017



Dave Yost • Auditor of State

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

Northeastern Local School District
Clark County
1414 Bowman Road
Springfield, Ohio 45502

To the Board of Education:

Report on Compliance for the Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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



Dave Yost
Auditor of State
Columbus, Ohio

March 22, 2017

**NORTHEASTERN LOCAL SCHOOL DISTRICT
CLARK 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)?	No
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster: <ul style="list-style-type: none"> • CFDA 10.553 – School Breakfast Program • CFDA – 10.555 – National School Lunch Program
<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?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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NORTHEASTERN LOCAL SCHOOL DISTRICT

CLARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 6, 2017**