



Dave Yost • Auditor of State

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY**

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SENECA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Seneca East Local School District
Seneca County
13343 East US 224
Attica, Ohio 44807

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 Seneca East Local School District, Seneca 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 Seneca East Local School District, Seneca 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.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during 2016, the District restated their beginning fund balances to reclassify certain funds to more appropriately reflect the purpose of the funds. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 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.



Dave Yost
Auditor of State

Columbus, Ohio

June 27, 2017

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- Net position of governmental activities increased \$793,572, which represents a 9.73% increase from 2015.
- General revenues accounted for \$9,919,214 in revenue or 81.63% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,231,481, or 18.37%, of total revenues of \$12,150,695.
- The District had \$11,357,123 in expenses related to governmental activities; \$2,231,481 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$9,919,214 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and the debt service fund. The general fund had \$10,211,181 in revenues and \$9,021,044 in expenditures and other financing uses. During fiscal year 2016, the general fund's fund balance increased \$1,190,137 from a balance of \$1,386,337 to a balance of \$2,576,474.
- The District's debt service fund had \$841,616 in revenues and \$781,626 in expenditures. During fiscal year 2016, the debt service fund's fund balance increased \$59,990 from a balance of \$847,111 to a balance of \$907,101.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the 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 District, presenting both an aggregate view of the 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 District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund and the debt service fund are by far the most significant funds, and the only governmental funds reported as major funds.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

Reporting the 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 District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did the District perform 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, deferred inflows of resources, revenues, and expenses using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net position and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operations and maintenance, pupil transportation, extracurricular activities, and food service operations.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the District's most significant funds. The District's only major governmental funds are the general fund and the debt service fund.

Governmental Funds

Most of the 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 future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets than can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the 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 basic financial statements.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability.

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**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

The District as a Whole

The table below provides a summary of the District's net position at June 30, 2016 and June 30, 2015.

	Net Position	
	Governmental Activities <u>2016</u>	Restated Governmental Activities <u>2015</u>
<u>Assets</u>		
Current and other assets	\$ 9,443,040	\$ 7,828,001
Capital assets, net	<u>26,883,168</u>	<u>27,796,751</u>
Total assets	<u>36,326,208</u>	<u>35,624,752</u>
<u>Deferred Outflows of Resources</u>		
Unamortized deferred charges on debt refunding	744,202	787,136
Pension	<u>1,280,580</u>	<u>838,477</u>
Total deferred outflows of resources	<u>2,024,782</u>	<u>1,625,613</u>
<u>Liabilities</u>		
Current liabilities	1,006,203	932,568
Long-term liabilities:		
Due within one year	577,763	608,982
Due in more than one year:		
Net pension liability	13,003,907	11,509,971
Other amounts	<u>10,406,918</u>	<u>10,665,418</u>
Total liabilities	<u>24,994,791</u>	<u>23,716,939</u>
<u>Deferred Inflows of Resources</u>		
Property taxes levied for next year	3,513,775	3,292,740
Pensions	<u>893,731</u>	<u>2,085,565</u>
Total deferred inflows of resources	<u>4,407,506</u>	<u>5,378,305</u>
<u>Net Position</u>		
Net investment in capital assets	18,359,497	18,718,023
Restricted	497,051	564,411
Unrestricted (deficit)	<u>(9,907,855)</u>	<u>(11,127,313)</u>
Total net position	<u>\$ 8,948,693</u>	<u>\$ 8,155,121</u>

During a previous fiscal year, the District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," and GASB Statement 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68," 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 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.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

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 District's proportionate share of each plan's collective:

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 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 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 District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the District's assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by \$8,948,693. Of this total, \$497,051 is restricted in use.

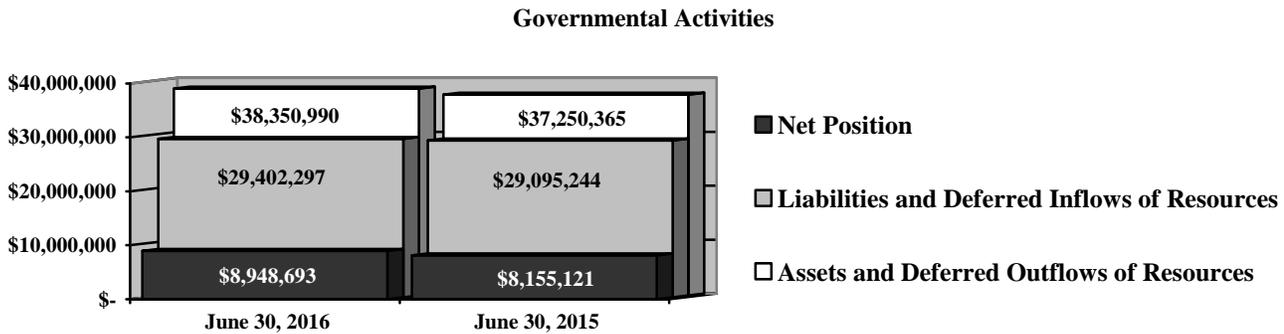
**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

At year-end, capital assets represented 74.00% of total assets. Capital assets include land, buildings and improvements, furniture and equipment and vehicles. The District's net investment in capital assets at June 30, 2016 was \$18,359,497. These capital assets are used to provide services to the students and are not available for future spending. Although the District's net investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$497,051, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position is a deficit of \$9,907,855.

The graph below shows the District's assets and deferred outflows of resources, liabilities and deferred inflows of resources, and net position at June 30, 2016 and 2015.



The table below shows the change in net position for fiscal years 2016 and 2015.

	Change in Net Position	
	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,341,614	\$ 1,330,279
Operating grants and contributions	889,867	889,610
General revenues:		
Property taxes	3,837,217	3,591,750
School district income taxes	1,102,985	1,095,913
Grants and entitlements	4,914,587	4,232,741
Investment earnings	25,164	21,804
Other	<u>39,261</u>	<u>37,889</u>
Total revenues	<u>12,150,695</u>	<u>11,199,986</u>

(Continued)

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

Change in Net Position (Continued)

	<u>Governmental Activities 2016</u>	<u>Governmental Activities 2015</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 5,070,804	\$ 4,758,141
Special	1,247,745	1,116,527
Vocational	162,270	156,360
Adult/continuing	4,000	-
Support services:		
Pupil	230,998	168,038
Instructional staff	150,952	118,859
Board of education	74,839	56,447
Administration	754,200	698,108
Fiscal	371,474	338,540
Business	15,166	10,031
Operations and maintenance	859,270	909,074
Pupil transportation	702,430	706,964
Central	203,854	203,576
Operations of non-instructional services:		
Other non-instructional services	22,058	24,988
Food service operations	412,012	420,670
Extracurricular activities	482,007	377,739
Interest and fiscal charges	593,044	543,297
 Total expenses	 <u>11,357,123</u>	 <u>10,607,359</u>
 Change in net position	 793,572	 739,280
 Net position at beginning of year (restated)	 <u>8,155,121</u>	 <u>7,415,841</u>
 Net position at end of year	 <u>\$ 8,948,693</u>	 <u>\$ 8,155,121</u>

Governmental Activities

Net position of the District's governmental activities increased \$793,572. Total governmental expenses of \$11,357,123 were offset by program revenues of \$2,231,481 and general revenues of \$9,919,214. Program revenues supported 19.65% of the total governmental expenses.

The primary sources of revenue for governmental activities in fiscal year 2016 are derived from property taxes, school district income taxes and grants and entitlements. These revenue sources represent 81.10% of total governmental revenue. Property taxes increased during the year resulting from the timing of collections and advances available from Seneca and Huron Counties. Advances available to the District were \$312,779, \$285,401, and \$172,499 at June 30, 2016, 2015, and 2014, respectively, and were recognized as revenue in the year in which the District could draw on these property tax collections.

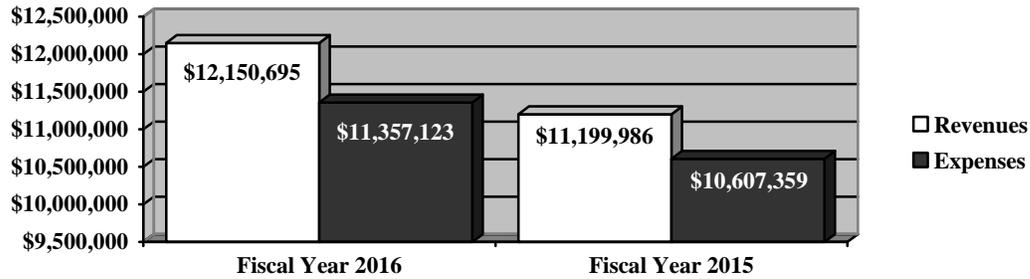
**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,484,819 or 57.10% of total governmental expenses for fiscal year 2016.

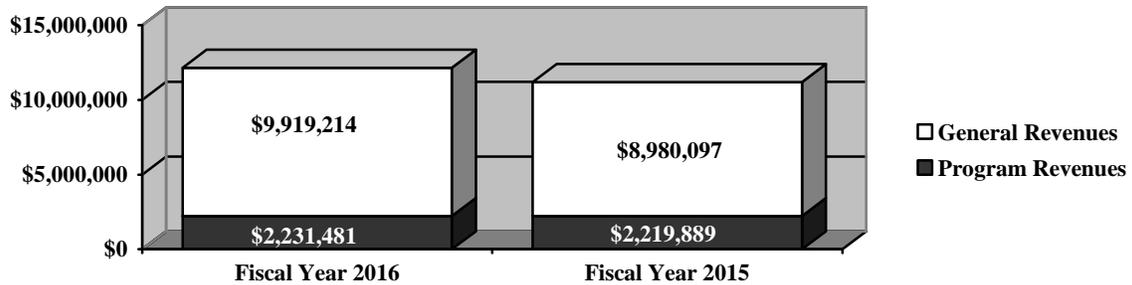
The graph below presents governmental activities revenues and expenses for fiscal year 2016 and 2015.

Governmental Activities - Revenues and Expenses



The graph below presents the District's governmental activities revenues for fiscal year 2016 and 2015.

Governmental Activities - General and Program Revenues



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

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

Governmental Activities

	Total Cost of Services <u>2016</u>	Net Cost of Services <u>2016</u>	Total Cost of Services <u>2015</u>	Net Cost of Services <u>2015</u>
Program expenses				
Instruction:				
Regular	\$ 5,070,804	\$ 4,178,944	\$ 4,758,141	\$ 3,890,443
Special	1,247,745	619,637	1,116,527	420,098
Vocational	162,270	131,948	156,360	101,123
Adult/continuing	4,000	4,000	-	-
Support services:				
Pupil	230,998	211,674	168,038	167,885
Instructional staff	150,952	147,000	118,859	117,859
Board of education	74,839	74,835	56,447	56,447
Administration	754,200	754,200	698,108	698,059
Fiscal	371,474	371,474	338,540	338,540
Business	15,166	15,166	10,031	10,031
Operations and maintenance	859,270	822,752	909,074	873,564
Pupil transportation	702,430	694,078	706,964	704,701
Central	203,854	198,454	203,576	203,576
Operations of non-instructional services				
Food service operations	412,012	22,011	420,670	30,530
Other non-instructional services	22,058	22,058	24,988	24,988
Extracurricular activities	482,007	264,367	377,739	206,329
Debt service:				
Interest and fiscal charges	593,044	593,044	543,297	543,297
Total expenses	<u>\$ 11,357,123</u>	<u>\$ 9,125,642</u>	<u>\$ 10,607,359</u>	<u>\$ 8,387,470</u>

The District's dependence upon taxes and other general revenues for governmental activities is apparent, as 76.09% of instruction activities are supported through such revenues. For all governmental activities, general revenue support is 80.35%. The District's taxpayers and grants and entitlements received from the state of Ohio, are the primary support for District's students.

The District's Funds

The District's governmental funds reported a combined fund balance of \$4,755,098, which is \$1,403,498 higher than last year's fund balance of \$3,351,600.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2016 and 2015.

Fund	Fund Balance	Restated Fund Balance	Change	Percentage Change
	June 30, 2016	June 30, 2015		
General	\$ 2,576,474	\$ 1,386,337	\$ 1,190,137	85.85 %
Debt service	907,101	847,111	59,990	7.08 %
Nonmajor governmental	1,271,523	1,118,152	153,371	13.72 %
Total	<u>\$ 4,755,098</u>	<u>\$ 3,351,600</u>	<u>\$ 1,403,498</u>	41.88 %

General Fund

The District's general fund revenues were 8.59% higher than in fiscal year 2015, while expenditures increased 3.24%, resulting in an increase in the fund balance of the general fund of \$1,190,137.

The table that follows assists in illustrating the activities of the District's general fund during fiscal year 2016.

	2016 Amount	2015 Amount	Change	Percentage Change
<u>Revenues</u>				
Taxes	\$ 4,170,079	\$ 4,012,670	\$ 157,409	3.92 %
Tuition	836,877	861,028	(24,151)	(2.80) %
Earnings on investments	23,859	20,919	2,940	14.05 %
Intergovernmental	5,100,147	4,423,132	677,015	15.31 %
Other revenues	80,219	85,859	(5,640)	(6.57) %
Total	<u>\$ 10,211,181</u>	<u>\$ 9,403,608</u>	<u>\$ 807,573</u>	8.59 %
<u>Expenditures</u>				
Instruction	\$ 5,426,174	\$ 5,181,908	\$ 244,266	4.71 %
Support services	2,973,369	2,952,707	20,662	0.70 %
Non-instructional services	-	1,200	(1,200)	(100.00) %
Extracurricular activities	235,211	226,349	8,862	3.92 %
Debt service	41,290	41,290	-	- %
Total	<u>\$ 8,676,044</u>	<u>\$ 8,403,454</u>	<u>\$ 272,590</u>	3.24 %

Total tax revenue of the general fund increased 3.92% from the prior year; this increase resulted from advances of property taxes available from Seneca and Huron Counties of \$312,779, \$285,401, and \$172,499 at June 30, 2016, 2015, and 2014, respectively, which are recognized as revenue in the year in which the District could draw on these advances rather than when cash is received. The increase in intergovernmental revenues can be partially attributed to an increase of Medicaid receipts received during fiscal year 2016. Earnings on investments increased due to increase in performance of the District's investments. All other revenue line items remained consistent with 2016.

Overall, expenditures increased \$272,590, or 3.24%, from 2015. Instruction expenditures increased \$244,266 due mainly to an increase in regular and special instruction related expenditures. All other expenditures remained consistent with those of the prior fiscal year.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

Debt Service Fund

The District's debt service fund had \$841,616 in revenues and \$781,626 in expenditures. During fiscal year 2016, the debt service fund's fund balance increased \$59,990 from a balance of \$847,111 to a balance of \$907,101.

General Fund Budgeting Highlights

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

During the course of fiscal year 2016, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$9,310,173 and were increased to \$10,307,341 in the final budget. Actual revenues and other financing sources for fiscal year 2016 were \$10,217,833. This represents a decrease of \$89,508 from final budgeted revenues and other financing sources.

General fund original budgeted expenditures and other financing uses were \$9,325,812 and final budgeted expenditures and other financing uses did not change. The actual budget basis expenditures and other financing uses for fiscal year 2016 totaled \$9,119,461, which were \$206,351 below budgeted appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the District had \$26,883,168 invested in land, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows the balances of the District's capital assets at June 30, 2016 compared to June 30, 2015.

Capital Assets at June 30, Net of Depreciation

	Governmental Activities	
	2016	2015
Land	\$ 20,972	\$ 20,972
Building and improvements	25,839,606	26,455,462
Furniture and equipment	707,958	877,144
Vehicles	314,632	443,173
Total	\$ 26,883,168	\$ 27,796,751

The overall decrease in capital assets of \$913,583 is due to depreciation expense of \$930,701 and disposals (net of depreciation) of \$20,253 exceeding capital asset additions of \$37,371 during fiscal year 2016.

See Note 9 to the basic financial statements for more information pertaining to the District's capital assets.

Debt Administration

At June 30, 2016, the District had \$9,430,241 in general obligation bonds and \$66,234 in capital lease obligations outstanding. Of this total, \$559,157 is due within one year and \$8,937,318 is due in greater than one year.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

The following table summarizes the bonds and lease obligations outstanding.

	Outstanding Debt, at Year End	
	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
General obligation bonds	\$ 9,430,241	\$ 9,599,138
Capital lease obligations	<u>66,234</u>	<u>103,706</u>
Total	<u>\$ 9,496,475</u>	<u>\$ 9,702,844</u>

See Note 11 to the basic financial statements for additional information regarding these transactions and the District's debt administration.

Current Financial Related Activities

The Seneca East Local School District relies heavily upon property taxes, income taxes, and intergovernmental revenue from the State of Ohio to support its operations. These revenue sources represented 30.00%, 10.84%, and 48.84% of total general fund revenues, respectively, during fiscal year 2016. The District ended the year with a budgetary-basis unencumbered balance in the general fund of \$2,416,045. The District relies on unrestricted revenues of the general fund for its operations more than in prior years due to reductions in federal funding. Through sound financial planning the district has been able to increase its cash balance in the general fund while still funding the replacement, technology, and severance fund from transfers out of the general fund. The district has not requested new operating money since 2000 and just passed a renewal of its income tax in May of 2015.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Laura Brickner, Treasurer, Seneca East Local School District, 13343 East U.S. 224, Attica, Ohio 44807.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 5,016,544
Receivables:	
Property taxes	3,914,159
Income taxes.	415,180
Accounts.	2,321
Accrued interest	573
Intergovernmental	31,441
Prepayments	47,582
Materials and supplies inventory.	1,780
Inventory held for resale.	13,460
Capital assets:	
Nondepreciable capital assets	20,972
Depreciable capital assets, net.	26,862,196
Capital assets, net	26,883,168
Total assets.	36,326,208
 Deferred outflows of resources:	
Unamortized deferred charges on debt refunding	744,202
Pension - STRS	1,084,498
Pension - SERS	196,082
Total deferred outflows of resources	2,024,782
 Liabilities:	
Accounts payable.	47,500
Accrued wages and benefits payable	773,455
Intergovernmental payable	26,616
Pension and postemployment benefits payable	139,031
Accrued interest payable	19,601
Long-term liabilities:	
Due within one year.	577,763
Due in more than one year:	
Net pension liability	13,003,907
Other amounts due in more than one year	10,406,918
Total liabilities	24,994,791
 Deferred inflows of resources:	
Property taxes levied for the next fiscal year.	3,513,775
Pension - STRS.	788,449
Pension - SERS.	105,282
Total deferred inflows of resources	4,407,506
 Net position:	
Net investment in capital assets	18,359,497
Restricted for:	
Classroom facilities maintenance	367,184
Federally funded programs	3,041
Student activities	42,913
Other purposes	83,913
Unrestricted (deficit).	(9,907,855)
Total net position.	\$ 8,948,693

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 5,070,804	\$ 844,945	\$ 46,915	\$ (4,178,944)
Special	1,247,745	30,022	598,086	(619,637)
Vocational	162,270	-	30,322	(131,948)
Adult/continuing	4,000	-	-	(4,000)
Support services:				
Pupil	230,998	-	19,324	(211,674)
Instructional staff	150,952	-	3,952	(147,000)
Board of education	74,839	-	4	(74,835)
Administration	754,200	-	-	(754,200)
Fiscal	371,474	-	-	(371,474)
Business	15,166	-	-	(15,166)
Operations and maintenance	859,270	36,518	-	(822,752)
Pupil transportation	702,430	-	8,352	(694,078)
Central	203,854	-	5,400	(198,454)
Operation of non-instructional services:				
Other non-instructional services	22,058	-	-	(22,058)
Food service operations	412,012	216,758	173,243	(22,011)
Extracurricular activities	482,007	213,371	4,269	(264,367)
Interest and fiscal charges	593,044	-	-	(593,044)
Total governmental activities	\$ 11,357,123	\$ 1,341,614	\$ 889,867	(9,125,642)
General revenues:				
Property taxes levied for:				
General purposes				3,065,627
Debt service				730,491
Classroom facilities maintenance				41,099
Income taxes levied for:				
General purposes				1,102,985
Grants and entitlements not restricted				
to specific programs				4,914,587
Investment earnings				25,164
Miscellaneous				39,261
Total general revenues				9,919,214
Change in net position				793,572
Net position at beginning of year (restated)				8,155,121
Net position at end of year				\$ 8,948,693

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 2,863,787	\$ 845,021	\$ 1,307,736	\$ 5,016,544
Receivables:				
Property taxes	3,114,252	748,242	51,665	3,914,159
Income taxes	415,180	-	-	415,180
Accounts	2,321	-	-	2,321
Accrued interest	573	-	-	573
Interfund loans	3,881	-	-	3,881
Intergovernmental	28,400	-	3,041	31,441
Prepayments	47,163	-	419	47,582
Materials and supplies inventory	855	-	925	1,780
Inventory held for resale	-	-	13,460	13,460
Total assets	<u>\$ 6,476,412</u>	<u>\$ 1,593,263</u>	<u>\$ 1,377,246</u>	<u>\$ 9,446,921</u>
Liabilities:				
Accounts payable	\$ 41,282	\$ -	\$ 6,218	\$ 47,500
Accrued wages and benefits payable	737,603	-	35,852	773,455
Intergovernmental payable	26,217	-	399	26,616
Pension and postemployment benefits payable	130,493	-	8,538	139,031
Interfund loans payable	-	-	3,881	3,881
Total liabilities	<u>935,595</u>	<u>-</u>	<u>54,888</u>	<u>990,483</u>
Deferred inflows of resources:				
Property taxes levied for the next fiscal year	2,797,894	669,222	46,659	3,513,775
Delinquent property tax revenue not available	69,530	16,940	1,135	87,605
Income tax revenue not available	69,356	-	-	69,356
Intergovernmental revenue not available	27,563	-	3,041	30,604
Total deferred inflows of resources	<u>2,964,343</u>	<u>686,162</u>	<u>50,835</u>	<u>3,701,340</u>
Fund balances:				
Nonspendable:				
Materials and supplies inventory	855	-	925	1,780
Prepays	47,163	-	419	47,582
Restricted:				
Debt service	-	907,101	-	907,101
Classroom facilities maintenance	-	-	366,049	366,049
Food service operations	-	-	96,319	96,319
Other purposes	-	-	4,833	4,833
Extracurricular	-	-	42,913	42,913
Committed:				
Capital improvements	-	-	770,005	770,005
Termination benefits	87,193	-	-	87,193
Assigned:				
Student instruction	54,224	-	-	54,224
Student and staff support	48,188	-	-	48,188
Other purposes	245,733	-	-	245,733
Unassigned (deficit)	2,093,118	-	(9,940)	2,083,178
Total fund balances	<u>2,576,474</u>	<u>907,101</u>	<u>1,271,523</u>	<u>4,755,098</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 6,476,412</u>	<u>\$ 1,593,263</u>	<u>\$ 1,377,246</u>	<u>\$ 9,446,921</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

Total governmental fund balances		\$	4,755,098
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			26,883,168
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	87,605	
Income taxes receivable		69,356	
Intergovernmental receivable		30,604	
Total		187,565	187,565
Unamortized premiums on bonds issued are not recognized in the funds.			(875,660)
Unamortized amounts on refundings are not recognized in the funds.			744,202
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(19,601)
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:			
Deferred outflows of resources - pension		1,280,580	
Deferred inflows of resources - pension		(893,731)	
Net pension liability		(13,003,907)	
Total		(12,617,058)	(12,617,058)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(9,430,241)	
Capital lease obligations		(66,234)	
Compensated absences		(612,546)	
Total		(10,109,021)	(10,109,021)
Net position of governmental activities		\$	8,948,693

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Property taxes	\$ 3,063,578	\$ 730,086	\$ 40,967	\$ 3,834,631
Income taxes	1,106,501	-	-	1,106,501
Tuition	836,877	-	-	836,877
Earnings on investments	23,859	-	1,305	25,164
Charges for services	-	-	213,371	213,371
Extracurricular	15,243	-	204,093	219,336
Classroom materials and fees	38,090	-	2,095	40,185
Rental income	7,525	-	24,220	31,745
Contributions and donations	3,318	-	4,269	7,587
Contract services	100	-	-	100
Other local revenues	5,943	-	56,848	62,791
Intergovernmental - state	4,987,282	111,530	38,770	5,137,582
Intergovernmental - federal	112,865	-	554,367	667,232
Miscellaneous	10,000	-	-	10,000
Total revenues	<u>10,211,181</u>	<u>841,616</u>	<u>1,140,305</u>	<u>12,193,102</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,406,872	-	261,668	4,668,540
Special	868,719	-	360,370	1,229,089
Vocational	146,583	-	-	146,583
Adult/continuing	4,000	-	-	4,000
Support services:				
Pupil	205,019	-	18,790	223,809
Instructional staff	111,403	-	3,964	115,367
Board of education	72,443	-	-	72,443
Administration	715,418	-	-	715,418
Fiscal	342,223	15,202	825	358,250
Business	599	-	-	599
Operations and maintenance	782,935	-	74,133	857,068
Pupil transportation	543,103	-	6,670	549,773
Central	200,226	-	5,400	205,626
Operation of non-instructional services:				
Food service operations	-	-	377,041	377,041
Extracurricular activities	235,211	-	223,073	458,284
Debt service:				
Principal retirement	37,472	510,000	-	547,472
Interest and fiscal charges	3,818	256,424	-	260,242
Total expenditures	<u>8,676,044</u>	<u>781,626</u>	<u>1,331,934</u>	<u>10,789,604</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,535,137</u>	<u>59,990</u>	<u>(191,629)</u>	<u>1,403,498</u>
Other financing sources (uses):				
Transfers in	-	-	345,000	345,000
Transfers (out)	(345,000)	-	-	(345,000)
Total other financing sources (uses)	<u>(345,000)</u>	<u>-</u>	<u>345,000</u>	<u>-</u>
Net change in fund balances	1,190,137	59,990	153,371	1,403,498
Fund balances at beginning of year (restated) .	<u>1,386,337</u>	<u>847,111</u>	<u>1,118,152</u>	<u>3,351,600</u>
Fund balances at end of year	<u>\$ 2,576,474</u>	<u>\$ 907,101</u>	<u>\$ 1,271,523</u>	<u>\$ 4,755,098</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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	\$	1,403,498
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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.		
Capital asset additions	\$ 37,371	
Current year depreciation	<u>(930,701)</u>	
Total		(893,330)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(20,253)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	2,586	
Intergovernmental	(41,477)	
Income taxes	<u>(3,516)</u>	
Total		(42,407)
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. Principal payments during the year were:		
Bonds	510,000	
Capital leases	<u>37,472</u>	
Total		547,472
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
Decrease in accrued interest payable	716	
Accreted interest on capital appreciation bonds	(341,103)	
Amortization of bond premiums	50,519	
Amortization of deferred charges	<u>(42,934)</u>	
Total		(332,802)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		750,260
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(610,259)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>(8,607)</u>
Change in net position of governmental activities	\$	<u>793,572</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Property taxes	\$ 2,807,829	\$ 3,044,722	\$ 3,044,722	\$ -
Income taxes.	1,106,201	1,119,804	1,119,804	-
Tuition.	861,027	878,695	836,876	(41,819)
Earnings on investments	4,374	6,210	7,129	919
Classroom materials and fees	39,685	39,685	38,090	(1,595)
Rental income	1,868	1,868	749	(1,119)
Contributions and donations	16,962	16,962	3,318	(13,644)
Other local revenues	6,425	7,987	5,943	(2,044)
Intergovernmental - state	4,389,743	5,045,668	5,007,597	(38,071)
Intergovernmental - federal	14,156	83,837	112,865	29,028
Miscellaneous	10,000	10,000	10,000	-
Total revenues	<u>9,258,270</u>	<u>10,255,438</u>	<u>10,187,093</u>	<u>(68,345)</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,720,198	4,479,480	4,456,526	22,954
Special.	842,386	887,279	866,508	20,771
Vocational.	161,384	155,759	147,727	8,032
Adult/continuing	6,000	6,000	4,000	2,000
Support services:				
Pupil.	186,688	206,047	203,820	2,227
Instructional staff	120,600	118,437	114,034	4,403
Board of education	72,113	71,558	64,707	6,851
Administration.	724,462	741,762	714,106	27,656
Fiscal	355,297	351,287	343,838	7,449
Business	1,815	4,301	2,094	2,207
Operations and maintenance.	962,614	816,024	807,898	8,126
Pupil transportation	639,898	614,910	557,162	57,748
Central.	219,098	216,242	202,992	13,250
Extracurricular activities.	239,144	229,678	222,028	7,650
Total expenditures	<u>9,251,697</u>	<u>8,898,764</u>	<u>8,707,440</u>	<u>191,324</u>
Excess of revenues over expenditures.	<u>6,573</u>	<u>1,356,674</u>	<u>1,479,653</u>	<u>122,979</u>
Other financing sources (uses):				
Refund of prior year's expenditures	24,084	24,084	11,692	(12,392)
Transfers (out).	(73,638)	(423,049)	(408,210)	14,839
Advances in.	27,819	27,819	19,048	(8,771)
Advances (out)	(477)	(3,999)	(3,811)	188
Total other financing sources (uses)	<u>(22,212)</u>	<u>(375,145)</u>	<u>(381,281)</u>	<u>(6,136)</u>
Net change in fund balance	(15,639)	981,529	1,098,372	116,843
Fund balance at beginning of year	1,297,861	1,297,861	1,297,861	-
Prior year encumbrances appropriated	19,812	19,812	19,812	-
Fund balance at end of year	<u>\$ 1,302,034</u>	<u>\$ 2,299,202</u>	<u>\$ 2,416,045</u>	<u>\$ 116,843</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 70,815	\$ 32,118
Total assets.	70,815	\$ 32,118
Liabilities:		
Due to students.	-	\$ 26,177
Due to other funds	-	5,941
Total liabilities	-	\$ 32,118
Net position:		
Held in trust for scholarships	70,815	
Total net position.	\$ 70,815	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

		<u>Private-Purpose Trust</u>
		<u>Scholarship</u>
Additions:		
Gifts and contributions	\$	15,445
Deductions:		
Scholarships awarded		<u>4,524</u>
Change in net position		10,921
Net position at beginning of year (restated). .		<u>59,894</u>
Net position at end of year	\$	<u><u>70,815</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District was established in 1971. The District serves an area of approximately 154 square miles and is located in Seneca and Huron Counties. The District is staffed by 70 certified employees, 41 classified employees and 6 administrators who provide services to 931 students from preschool through grade 12 and other community members. The District currently operates one instructional facility.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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 District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. 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).

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Northern Ohio Educational Computer Association (NOECA)

The District is a participant in the Northern Ohio Educational Computer Association (NOECA), which is a computer consortium. NOECA is an association of forty public school districts formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NOECA is governed by a Board of Directors chosen from the general membership of the NOECA Assembly. The NOECA Assembly consists of a representative from each participating school district. Payments made by the District to NOECA for services during fiscal year 2016 totaled \$20,639. Financial information may be obtained from NOECA, 219 Howard Drive, Sandusky, Ohio 44870.

Vanguard-Sentinel Career and Technology Center

The Vanguard-Sentinel Career and Technology Center (Career Center) is a distinct political subdivision of the State of Ohio, which provides vocational education to students. The Career Center is operated under the direction of a Board consisting of one representative from the Seneca East Local School District, one representative from twelve other participating school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. The Career Center is its own budgeting and taxing authority. Financial information can be obtained from Alan Binger, Vanguard-Sentinel Career and Technology Center, 1306 Cedar Street, Fremont, Ohio 43420.

Bay Area Council

The Bay Area Council was established in 1986 to carry out a cooperative program for the purchase of natural gas among boards of education located in Erie, Huron, Ottawa, Sandusky, Seneca, and Wood Counties. The Bay Area Council is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member boards of education. The Bay Area Council is governed by a Board of Directors. This Board is elected by an Assembly consisting of a representative from each participating school district. Financial information may be obtained from the North Point Educational Service Center, which serves as fiscal agent, 1210 East Bogart Road, Sandusky, Ohio 44870.

Northwestern Ohio Educational Research Council, Incorporated

The Northwestern Ohio Educational Research Council, Inc. is a non-profit organization under the direction of a Board of Directors. The Council was formed to provide conferences and training to personnel of the participating districts. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. To obtain financial information write to the Northwestern Ohio Educational Research Council, Inc., Andrew M. Smith, Treasurer, at 441 E. Market Street, Celina, Ohio 45822.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

North Central Ohio Regional Council of Governments (NCORCOG)

NCORCOG is a legally separate body politic and corporate served by an eight-member Board of Directors that meets the definition of regional Council of governments under Chapter 167 of the Ohio Revised Code. NCORCOG is a regional source for shared services. Cost savings achieved are designed to not only maintain existing essential services, but to enhance them as well.

The initial, founding members, and Board of Directors are North Central Ohio Educational Service Center, Seneca County, the City of Tiffin, Clinton Township, Village of New Riegel, North Central Academy, Tiffin City School District, and Seneca East Local School District. The Superintendent of North Central Ohio Educational Service Center serves as Chair of the Board. The Chair is a non-voting member and shall only vote in the event of a tie. The Treasurer of North Central Ohio Educational Service Center serves as ex-officio/advisor for fiscal matters and is also a non-voting member. Membership is voluntary pursuant to resolution, ordinance or other appropriate action. Application of membership shall be subject to approval by the Board of Directors. Each political subdivision shall be entitled to one vote.

North Central Ohio ESC serves as the fiscal agent. NCORCOG issues a publicly available, stand-alone financial report. The report may be obtained by writing to the Treasurer of the North Central Ohio Educational Service Center, 928 W. Market Street, Tiffin, Ohio 44883.

RELATED ORGANIZATION

Seneca East Public Library

The Seneca East Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Seneca East Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the District for operational subsidies. Although the District serves as the taxing authority, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Seneca East Public Library, Pam Dunson, who serves as Fiscal Officer, 14 North Main Street, Attica, Ohio 44807.

INSURANCE PURCHASING POOLS

North Central Ohio Joint Self-Insurance Association (the "Association")

The Association is a public entity risk pool consisting of the North Central Ohio Educational Service Center, three school districts - Old Fort, Seneca East and Mohawk and one city school, Tiffin. The Association was established pursuant to Section 9.833, Ohio Revised Code, in order to act as a common risk management and insurance program. The Association's Board of Directors is comprised of one member from each of its members. The North Central Ohio Educational Service Center serves as fiscal agent of the Association; to obtain financial information by writing to the Treasurer of the North Central Ohio ESC, 928 West Market Street, Suite A, Tiffin, Ohio 44883.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established in Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. Refer to Note 12.D. for further detail regarding the GRP.

B. Fund Accounting

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

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 plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as fund balance.

The following are the District's major governmental funds:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Debt service fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources when the government is obligated in some manner for payment.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed or assigned to expenditures for capital outlays including the acquisition of construction of capital facilities and other capital assets, and (b) specific revenue sources that are restricted or committed for specified purposes other than debt service or capital projects.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

Government-Wide Financial Statements - The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of the District are included on the statement of net position.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

The private-purpose trust fund is reported using the economic resources measurement focus. The agency fund does not report a measurement focus as it does not report operations.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On 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 District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income 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 6). Revenue from income taxes is recognized in the fiscal year in which the underlying exchange transaction is accrued (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 District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, income taxes, interest, contributions and donations, grants and entitlements, and other local revenues.

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents 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 District, See Note 13 for deferred outflows of resources related the District's net pension liability. In addition, deferred outflows of resources include a deferred charge on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements 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 as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes 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 of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents unavailables which will not be collected within the available period. For the District unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the District, See Note 13 for deferred inflows of resources related to the District's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities used during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a corresponding amount reported as intergovernmental revenue.

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. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds, except agency funds. The specific timetable for fiscal year 2016 is as follows:

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Seneca County Budget Commission for tax rate determination.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final amended certificates issued for fiscal year 2016.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2016. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a portion of restricted, committed or assigned classifications of fund balance.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

During fiscal year 2016, investments were limited to nonnegotiable certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposits, are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund, the replacement fund (a nonmajor governmental fund), the capital projects fund (a nonmajor governmental fund), the classroom facilities maintenance fund (a nonmajor governmental fund), and the private-purpose trust fund. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$23,859, which includes \$11,015 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets specifically related to activities reported in the governmental funds. These assets generally 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. The District maintains a capitalization threshold of \$1,500. Donated capital assets are recorded at their fair market values as of the date received. 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. The District does not possess infrastructure.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	6 - 10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans among the governmental activities are classified as “interfund loans receivable/payable”. These amounts are eliminated in the governmental activities column on the statement of net position. Interfund loans between governmental fund and private purpose trust funds are classified as “loans receivable/payable”.

J. Compensated Absences

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2016, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave for employees expected to become eligible to retire in the future, all employees with at least 10 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2016 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds; however, claims and judgments and compensated absences 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 year. Bonds and capital lease obligations are recognized as a liability on the fund financial statements when due.

L. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable in the general fund.

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

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

M. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component “net investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes includes resources restricted for food service operations.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At the fiscal year end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is nonspendable on the fund financial statements by an amount equal to the carrying value of the assets.

O. Estimates

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

P. 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 basic financial statements.

Interfund activity between governmental funds is eliminated in the statement of activities.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Q. Bond Issuance Costs, Bond Premiums and Discounts, Accounting Gain or Loss

On both the government-wide financial statements and the fund financial statements, bond issuance costs are recognized in the period in which these items are incurred.

On the government-wide financial statements, bond premiums and discounts are amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds and bond discounts are presented as a reduction to the face amount of the bonds. On the governmental fund financial statements, bond premiums and discounts are recognized in the period in which these items are incurred. The reconciliation between the face value of bonds and the amount reported on the statement of net position is presented in Note 11.

For current and advance refundings resulting in the defeasance of debt reported in the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the refunded debt is amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a deferred inflow of resources or a deferred outflow of resources.

R. 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.

S. 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 year 2016.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2016, the District has implemented 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 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the District.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the District.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative 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 District.

GASB Statement No. 79 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 District.

B. Deficit Fund Balances

Fund balances at June 30, 2016 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Title I	\$ 9,940

The general fund is liable for any deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities.

C. Accounting Change

An accounting change is required in order to restate net position in the governmental activities, the general fund, nonmajor governmental funds and the private purpose trust fund due to the private purpose trust fund including funds that should have been a part of the general fund and special revenue fund. The governmental activities, general fund, nonmajor governmental funds and private purpose trust fund at July 1, 2015 have been restated as follows:

	Governmental Activities	General Fund	Nonmajor Governmental Funds	Private Purpose Trust Fund
Net position as previously reported	\$ 8,008,468	\$ 1,250,160	\$ 1,107,676	\$ 206,547
Adjustment	146,653	136,177	10,476	(146,653)
Restated net position at July 1, 2015	\$ 8,155,121	\$ 1,386,337	\$ 1,118,152	\$ 59,894

**SENECA EAST LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 4 - DEPOSITS

State statutes classify monies held by the 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 District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, 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 or Ohio local governments;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above 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 Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance 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. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 4 - DEPOSITS - (Continued)

Protection of the 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.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. 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 fiscal year end, the District had \$2,350 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and cash equivalents".

B. Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all District deposits, including \$480,191 in non-negotiable certificates of deposit, was \$5,117,127. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, \$4,826,908 of the District's bank balance of \$5,326,908 was exposed to custodial risk as discussed below, while \$500,000 was covered by the FDIC.

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

C. Investments

The District held no investments at June 30, 2016.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 4 - DEPOSITS - (Continued)

D. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash as reported in the note above to cash as reported on the statement of net position as of June 30, 2016:

<u>Cash and cash equivalents per footnote</u>	
Carrying amount of deposits	\$ 5,117,127
Cash on hand	<u>2,350</u>
Total	<u>\$ 5,119,477</u>
 <u>Cash and cash equivalents per statement of net position</u>	
Governmental activities	\$ 5,016,544
Private-purpose trust fund	70,815
Agency funds	<u>32,118</u>
Total	<u>\$ 5,119,477</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended June 30, 2016, consisted of the following, as reported on the fund financial statements:

<u>Transfers to other governmental funds from:</u>	<u>Amount</u>
General fund	<u>\$ 345,000</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

- B.** Interfund balances at June 30, 2016 as reported on the fund statements include the following interfund loans receivable and payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	<u>\$ 3,881</u>

This interfund balance will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the statement of net position.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES

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

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

The District receives property taxes from Seneca and Huron Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available as an advance at June 30, 2016 was \$246,828 in the general fund, \$62,080 in the debt service fund and \$3,871 in the classroom facilities maintenance fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2015 was \$227,972 in the general fund, \$54,078 in the debt service fund and \$3,351 in the classroom facilities maintenance fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal 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 was 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 by a credit to deferred inflows.

On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been reported as a deferred inflow.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES - (Continued)

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

	2015 Second Half Collections		2016 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 156,613,180	95.33	\$ 162,225,800	95.10
Public utility personal	<u>7,671,490</u>	<u>4.67</u>	<u>8,351,590</u>	<u>4.90</u>
Total	<u>\$ 164,284,670</u>	<u>100.00</u>	<u>\$ 170,577,390</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$34.30		\$36.65	

NOTE 7 - SCHOOL DISTRICT INCOME TAX

The voters of the District passed a 1% school district income tax that was renewed in May 2015. This tax is effective for five years and will expired on December 31, 2020. School district income tax revenue credited to the general fund during fiscal year 2016 was \$1,106,501.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2016 consisted of property and income taxes, accounts, accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net position follows:

Governmental activities:

Property taxes	\$ 3,914,159
Income taxes	415,180
Accounts	2,321
Accrued interest	573
Intergovernmental	<u>31,441</u>
Total	<u>\$ 4,363,674</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 9 - CAPITAL ASSETS

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

	Balance 6/30/15	Additions	Disposals	Balance 6/30/16
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 20,972	\$ -	\$ -	\$ 20,972
Total capital assets, not being depreciated	<u>20,972</u>	<u>-</u>	<u>-</u>	<u>20,972</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	30,781,817	-	-	30,781,817
Furniture and equipment	2,202,068	37,371	(25,262)	2,214,177
Vehicles	1,181,938	-	-	1,181,938
Total capital assets, being depreciated	<u>34,165,823</u>	<u>37,371</u>	<u>(25,262)</u>	<u>34,177,932</u>
<i>Less: accumulated depreciation</i>				
Buildings and improvements	(4,326,355)	(615,856)	-	(4,942,211)
Furniture and equipment	(1,324,924)	(186,304)	5,009	(1,506,219)
Vehicles	(738,765)	(128,541)	-	(867,306)
Total accumulated depreciation	<u>(6,390,044)</u>	<u>(930,701)</u>	<u>5,009</u>	<u>(7,315,736)</u>
Governmental activities capital assets, net	<u>\$ 27,796,751</u>	<u>\$ (893,330)</u>	<u>\$ (20,253)</u>	<u>\$ 26,883,168</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 467,045
Special	32,248
Vocational	17,714
<u>Support services:</u>	
Pupil	10,742
Instructional staff	30,242
Board of education	2,441
Administration	56,424
Fiscal	17,124
Business	6,317
Operations and maintenance	36,694
Pupil transportation	159,442
Food service operations	43,003
Other non-instructional services	22,058
Extracurricular	29,207
Total depreciation expense	<u>\$ 930,701</u>

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE

The District has entered into capitalized leases for copier equipment. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of furniture and equipment have been capitalized in the amount of \$184,991. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2016 was \$129,493, leaving a current book value of \$55,498. A corresponding liability was recorded in the government-wide financial statements. Principal payments for capital leases in the 2016 fiscal year totaled \$37,472 and were paid by the general fund.

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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 41,290
2018	<u>27,526</u>
Total minimum lease payments	68,816
Less: amount representing interest	<u>(2,582)</u>
Total	<u>\$ 66,234</u>

NOTE 11 - LONG-TERM OBLIGATIONS

A. During fiscal year 2016, the following changes occurred in governmental activities' long-term obligations.

	<u>Balance</u> <u>06/30/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/16</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
Governmental activities:					
General obligation bonds	\$ 9,599,138	\$ 341,103	\$ (510,000)	\$ 9,430,241	\$ 520,000
Capital lease obligations	103,706	-	(37,472)	66,234	39,157
Net pension liability	11,509,971	1,493,936	-	13,003,907	-
Compensated absences	<u>645,377</u>	<u>28,678</u>	<u>(61,509)</u>	<u>612,546</u>	<u>18,606</u>
Total long-term liabilities	<u>\$ 21,858,192</u>	<u>\$ 1,863,717</u>	<u>\$ (608,981)</u>	23,112,928	<u>\$ 577,763</u>
Add: Unamortized premium on Series 2013 General Obligation Refunding Bonds				<u>875,660</u>	
Total long-term obligations reported on the statement of net position				<u>\$ 23,988,588</u>	

**SENECA EAST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Capital Lease Obligation: Capital lease obligations will be paid from the general fund. See Note 10 for details.

Net Pension Liability: See Note 13 for detail on the net pension liability.

Compensated Absences: Compensated absences will be paid from the fund from which employees' salaries are paid, which for the District is primarily the general fund.

- B. Series 2005 General Obligation Bonds:** On November 1, 2005, the District issued Series 2005 General Obligation Bonds. Proceeds of \$11,845,986 from the issuance were used to finance the District's portion of its Ohio School Facilities Commission project and retired the \$9,000,000 in bond anticipation notes issued on May 3, 2005.

The issue is comprised of both current interest bonds, par value \$11,800,000, and capital appreciation bonds, par value \$45,986. Interest rates on the current interest bonds range from 3.5% to 4.5% with interest payments due on June 1 and December 1 of each year until final maturity at December 1, 2033. A portion of the Series 2005 General Obligation Bonds was refunded during fiscal year 2013 in the amount of \$8,550,000. Principal payments made during 2016 amounted to \$400,000 and were paid from the debt service fund. The current interest bonds matured on December 1, 2015.

The capital appreciation bonds mature on December 1, 2018, 2019, and 2020 at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date at stated approximate yields to maturity of 4.65%, 4.70%, and 4.80%, respectively. The accreted value at maturity for the capital appreciation bonds is \$1,335,000. Total accreted interest of \$644,667 has been included in the statement of net position.

The following is a schedule of activity of the Series 2005 General Obligation Bonds for fiscal year 2016.

	Balance 06/30/15	Additions	Reductions	Balance 06/30/16
Series 2005 General Obligation Bonds:				
Current interest bonds	\$ 400,000	\$ -	\$ (400,000)	\$ -
Capital appreciation bonds	45,986	-	-	45,986
Accreted interest on capital appreciation bonds	488,927	155,740	-	644,667
Total Series 2005 General Obligation Bonds	\$ 934,913	\$ 155,740	\$ (400,000)	\$ 690,653

**SENECA EAST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Future debt service requirements for the Series 2005 General Obligation Bonds are as follows:

Fiscal Year Ending June 30,	Capital Appreciation Bonds		
	Principal	Interest	Total
2017	\$ -	\$ -	\$ -
2018	-	-	-
2019	19,126	425,874	445,000
2020	15,037	429,963	445,000
2021	<u>11,823</u>	<u>433,177</u>	<u>445,000</u>
Total	<u>\$ 45,986</u>	<u>\$ 1,289,014</u>	<u>\$ 1,335,000</u>

- C. *Series 2013 General Obligation Refunding Bonds:* On June 18, 2013, the District issued Series 2013 General Obligation Refunding Bonds to advance refund \$8,550,000 of the Series 2005 current interest bonds. Issuance proceeds of \$9,424,792 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased in substance and has been removed from the statement of net position; as of June 30, 2016, the balance of the defeased debt amounted to \$8,550,000.

The refunding issue is comprised of both current interest bonds, par value \$7,975,000, and capital appreciation bonds, par value \$574,993. The interest rates on the current interest bonds range from 1.0% to 3.5% with interest payments due on June 1 and December 1 of each year until final maturity at December 1, 2033. Principal payments made during 2016 amounted to \$110,000 and were paid from the debt service fund. The balance of the current interest refunding bonds at June 30, 2016, is \$7,705,000.

The capital appreciation bonds mature on December 1, 2016, 2017, and 2021 at a redemption price equal to 100% of the principal plus accrued interest to the redemption date at stated approximate yields to maturity of 1.35%, 1.55%, and 2.75%, respectively. The accreted value at maturity for the capital appreciation bonds is \$1,565,000. Total accreted interest of \$459,595 has been included in the statements of activities.

The reacquisition price exceeded the net carrying amount of the refunded debt by \$874,792; this amount is amortized as a deferred outflow of resources over the remaining term of the refunded debt, which is equal to the life of the new debt issued. The advance refunding was undertaken to reduce combined total debt service payments through December 1, 2033 by \$503,179 and resulted in an economic gain of \$381,298.

**SENECA EAST LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The following is a schedule of activity of the Series 2013 General Obligation Refunding Bonds for fiscal year 2016:

	Balance 06/30/15	Additions	Reductions	Balance 06/30/16
Series 2013 General				
Obligation Refunding Bonds:				
Current interest bonds	\$ 7,815,000	\$ -	\$ (110,000)	\$ 7,705,000
Capital appreciation bonds	574,993	-	-	574,993
Accreted interest on capital appreciation bonds	<u>274,232</u>	<u>185,363</u>	<u>-</u>	<u>459,595</u>
Total Series 2013 General				
Obligation Refunding Bonds	<u>\$ 8,664,225</u>	<u>\$ 185,363</u>	<u>\$ (110,000)</u>	<u>\$ 8,739,588</u>

Future debt service requirements for the Series 2013 General Obligation Refunding Bonds are as follows:

Fiscal Year Ending	Series 2013 General Obligation Refunding Bonds					
	Current Interest Bonds			Capital Appreciation Bonds		
	June 30,	Principal	Interest	Total	Principal	Interest
2017	\$ -	\$ 247,373	\$ 247,373	\$ 262,049	\$ 257,951	\$ 520,000
2018	-	247,374	247,374	214,875	305,125	520,000
2019	75,000	246,680	321,680	-	-	-
2020	75,000	245,293	320,293	-	-	-
2021	75,000	243,905	318,905	-	-	-
2022 - 2026	2,170,000	1,117,547	3,287,547	98,069	426,931	525,000
2027 - 2031	3,100,000	697,515	3,797,515	-	-	-
2032 - 2036	<u>2,210,000</u>	<u>126,725</u>	<u>2,336,725</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 7,705,000</u>	<u>\$ 3,172,412</u>	<u>\$ 10,877,412</u>	<u>\$ 574,993</u>	<u>\$ 990,007</u>	<u>\$ 1,565,000</u>

D. *Legal Debt Margin:* The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2016, are a voted debt margin of \$7,933,087 (including available funds of \$907,101) and an unvoted debt margin of \$170,577.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

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

Coverage provided by Schools of Ohio Risk Sharing Authority (SORSA) is as follows:

Buildings and Contents -replacement cost (\$250 deductible)	\$37,391,181
Computer Equipment (\$250 deductible) – blanket all locations	1,250,000
Maintenance Equipment (\$250 deductible)	Included in Buildings & Contents Limit
Misc. Radio (\$250 deductible)	Included in Buildings & Contents Limit
Musical Instruments (\$250 deductible)	1,000,000
Automobile Liability	15,000,000
Uninsured Motorists - per person	100,000
Medical Payments - per person	10,000
General Liability –	
Each Occurrence Limit	15,000,000
Damage to Premises Rented Limit – any one premises	500,000
Medical Expense Limit – any one person	10,000
Personal and Advertising Injury Limit – any one person or organization	15,000,000
General Aggregate Limit	17,000,000
School Leaders Errors and Omissions	
Each Wrongful Act Limit	15,000,000
Aggregate Limit	15,000,000
Deductible – one wrongful act	2,500
Sexual Misconduct and Molestation Liability	
Each Loss Limit	Included in General Liability
Aggregate Limit	Included in General Liability
Employers Stop Gap Liability	
Bodily Injury by Accident – each accident limit	15,000,000
Bodily Injury by Disease – policy limit	15,000,000
Bodily Injury by Disease – each employee limit	15,000,000
Aggregate	15,000,000

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

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NOTE 12 - RISK MANAGEMENT - (Continued)

B. Health, Dental, Vision and Life Insurance

During fiscal year 2016, the District provided dental, vision and life insurance to employees through the North Central Ohio Joint Self Insurance Association. The North Central Ohio Joint Self Insurance Association is a public entity risk pool for five member school Districts and the North Central Ohio Educational Service Center. The risk of loss transfers entirely to the pool. The District paid a monthly premium to the pool for dental, vision and life insurance. The agreement for formation of the pool provided that it will be self-sustaining through member premiums and the pool will purchase stop-loss insurance policies through commercial companies to cover claims in excess of \$50,000 for any employee.

C. Prescription Drug Insurance

Effective July 1, 2013, the District was no longer self-insured for employee prescription drug insurance. PRM Plus, Inc. was the third party administrator of the plan. All run-out claims were paid during fiscal year 2014.

D. Workers' Compensation Plan

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the immediate past president of the Ohio School Boards Association. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the plan to cover the cost of administering the Plan.

The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. 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 plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Comp Management provided administrative, cost control and actuarial services to the Plan for fiscal year 2016

NOTE 13 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

The 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 *pension and postemployment benefits payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 years. Final average salary is the average of the highest three years of salary.

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

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

The District's contractually required contribution to SERS was \$161,459 for fiscal year 2016. Of this amount, \$21,915 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 - 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 service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 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 District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$588,801 for fiscal year 2016. Of this amount, \$98,024 is reported as pension and postemployment benefits payable.

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 District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 2,132,134	\$ 10,871,773	\$ 13,003,907
Proportion of the net pension liability	0.03736590%	0.03933764%	
Pension expense	\$ 123,723	\$ 486,536	\$ 610,259

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	\$ 34,623	\$ 495,697	\$ 530,320
District contributions subsequent to the measurement date	161,459	588,801	750,260
Total deferred outflows of resources	\$ 196,082	\$ 1,084,498	\$ 1,280,580
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 75,438	\$ 783,447	\$ 858,885
Changes in employer's proportionate percentage/ difference between the employer's contributions and the employer's proportionate share of contributions	29,844	5,002	34,846
Total deferred inflows of resources	\$ 105,282	\$ 788,449	\$ 893,731

\$750,260 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2017	\$ (36,743)	\$ (178,190)	\$ (214,933)
2018	(36,743)	(178,190)	(214,933)
2019	(36,746)	(178,190)	(214,936)
2020	39,573	241,818	281,391
Total	\$ (70,659)	\$ (292,752)	\$ (363,411)

Actuarial Assumptions - SERS

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

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22.00 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 average 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:

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

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Sensitivity of the 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.

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 Schools District's net pension liability is expected to be significant.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 2,956,504	\$ 2,132,134	\$ 1,437,947

Actuarial Assumptions - STRS

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

Inflation	2.75 percent
Projected salary increases	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.

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NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

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

	<u>1% Decrease (6.75%)</u>	<u>Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$ 15,101,713	\$ 10,871,773	\$ 7,294,728

**SENECA EAST LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, none of the employer contribution was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the District's surcharge obligation was \$19,092.

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$19,092, \$26,177, and \$17,856, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

B. State Teachers Retirement System

Plan Description - The 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.

**SENECA EAST LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

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 years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$41,244, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While 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 and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) 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 the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 1,098,372
Net adjustment for revenue accruals	(25,713)
Net adjustment for expenditure accruals	(110,353)
Net adjustment for other sources and uses	36,281
Funds budgeted elsewhere	81,612
Adjustment for encumbrances	109,938
GAAP basis	<u>\$ 1,190,137</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the farm fund, the public school support fund and the termination benefits fund.

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

C. Foundation Funding

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional 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 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 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 16 - CONTINGENCIES - (Continued)

D. Pollution Remediation

During 1998, the District had a 1,000 gallon underground storage tank removed and, during closure activities, soil analytical results indicated a release has occurred from the dispenser and piping. Remediation and monitoring activities took place in the subsequent years. The Bureau of Underground Storage Tank Regulations (BUSTR), a subdivision of the Ohio Department of Commerce, is requiring the District to perform further pollution remediation activities on the site. During fiscal year 2016, the District made payments of \$28,132 to TTL Associates, Inc. for pre-cleanup activities related to additional testing and monitoring. No payments were made in the available period and any further pollution remediation liabilities, such as cleanup activities, are not estimable at this time but may require further costs to be incurred by the District.

NOTE 17 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2015	\$ -
Current year set-aside requirement	166,899
Current year qualifying expenditures	(56,682)
Current year offsets	(64,376)
Prior year offset from bond proceeds	<u>(45,841)</u>
Total	<u>\$ -</u>
Balance carried forward to fiscal year 2017	<u>\$ -</u>
Set-aside balance June 30, 2016	<u>\$ -</u>

During fiscal year 2005 the District issued \$11,845,986 in capital related general obligation bonds. These proceeds may be used to reduce the capital acquisition set-aside to zero in future years. The District is responsible for tracking the amount of bond proceeds that may be used as an offset in future periods, which was \$10,994,911 at June 30, 2016.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

NOTE 18 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are reservations of fund balance for subsequent-year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 90,578
Nonmajor governmental	<u>262,589</u>
Total	<u>\$ 353,167</u>

REQUIRED SUPPLEMENTARY INFORMATION

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability	0.03736590%	0.03814400%	0.03814400%
District's proportionate share of the net pension liability	\$ 2,132,134	\$ 1,930,446	\$ 2,268,301
District's covered-employee payroll	\$ 1,124,909	\$ 1,108,391	\$ 1,026,936
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.54%	174.17%	220.88%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

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

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability	0.03933764%	0.03938389%	0.03938389%
District's proportionate share of the net pension liability	\$ 10,871,773	\$ 9,579,525	\$ 11,411,068
District's covered-employee payroll	\$ 4,154,000	\$ 4,023,946	\$ 4,059,992
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	261.72%	238.06%	281.06%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

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

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 161,459	\$ 148,263	\$ 153,623	\$ 142,128
Contributions in relation to the contractually required contribution	<u>(161,459)</u>	<u>(148,263)</u>	<u>(153,623)</u>	<u>(142,128)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 1,153,279	\$ 1,124,909	\$ 1,108,391	\$ 1,026,936
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 131,845	\$ 115,970	\$ 119,271	\$ 90,517	\$ 89,664	\$ 92,666
<u>(131,845)</u>	<u>(115,970)</u>	<u>(119,271)</u>	<u>(90,517)</u>	<u>(89,664)</u>	<u>(92,666)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 980,260	\$ 922,593	\$ 880,879	\$ 919,888	\$ 913,075	\$ 867,659
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 588,801	\$ 581,560	\$ 523,113	\$ 527,799
Contributions in relation to the contractually required contribution	<u>(588,801)</u>	<u>(581,560)</u>	<u>(523,113)</u>	<u>(527,799)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 4,205,721	\$ 4,154,000	\$ 4,023,946	\$ 4,059,992
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 525,386	\$ 479,725	\$ 484,643	\$ 452,906	\$ 456,191	\$ 455,512
<u>(525,386)</u>	<u>(479,725)</u>	<u>(484,643)</u>	<u>(452,906)</u>	<u>(456,191)</u>	<u>(455,512)</u>
<u>\$ -</u>					
\$ 4,041,431	\$ 3,690,192	\$ 3,728,023	\$ 3,483,892	\$ 3,509,162	\$ 3,503,938
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY, OHIO**

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

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. See the notes to the basic financials for the methods and assumptions in this calculation.



Dave Yost • Auditor of State

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

Seneca East Local School District
Seneca County
13343 East US 224
Attica, Ohio 44807

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 Seneca East Local School District, Seneca County, Ohio (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 27, 2017, wherein we noted the District restated their beginning fund balances to reclassify certain funds to more appropriately reflect the purpose of the funds.

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. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2016-001 to be a material weakness.

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*.

District's Response to Finding

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

Purpose of this Report

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

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

June 27, 2017

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2016**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2016-001

Material Weakness

Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions

GASB 54 introduces five fund balance classifications and clarifies the existing governmental fund type definitions. The governmental fund type definitions relate to constraints placed upon the use of resources. The fund balance classifications relate to constraints placed upon the use of resources reported in governmental funds. The five classifications are nonspendable, restricted, committed, assigned, and unassigned.

In the general fund, assigned balances represent intended uses established by policies of the Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes. The District has a Heartland Communication scholarship fund which has been designated by the Board of Education to be used for scholarships which was classified as a private purpose trust fund instead of being classified in the general fund as assigned fund balance.

Restricted fund balances are established when constraints are placed on the use of resources that are externally imposed by grantors, contributors, or laws or regulations of other governments. Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted to expenditure for specified purposes other than debt service or capital projects. The District has various local grant funds which were classified as private purpose trust funds instead of being classified as special revenue funds as part of the restricted fund balance.

The following adjustments were recorded to the District's financial statements:

- The reclassification of the Scholarship Fund increased the general fund's beginning balance by \$136,177, miscellaneous revenue by \$10,000, earnings on investments/interest by \$956, adult instruction expenditures by \$4,000, and the ending fund balance by \$143,133 which is classified as assigned.
- The private purpose trust funds' net position at beginning of the year decreased \$146,653, gift and contributions additions decreased \$54,474, scholarships awarded deductions decreased \$53,161, and net position at end of year decreased \$147,966. These amounts were due to the following funds being reclassified and increasing the special revenue funds by the following amounts:
 - PBIS – Grant Fund increased beginning fund balance by \$880, other local grants by \$5,296, support services pupils by \$4,762, and ending fund balance by \$1,414.
 - Mental Health – Guidance Grant Fund increased other local grants by \$17,000, regular instruction by \$3,000 and support services pupils by \$14,000.
 - North Central Grant – Schimpf Fund increased beginning and ending fund balances by \$31.
 - Mental Health Board - Safe Dates Fund increased other local grants and regular instruction by \$2,002.
 - Martha Holden Jennings – DARKOW Fund (9217) increased other local grants and ending fund balance by \$2,990.
 - Martha Holden Jennings – DARKOW Fund (9315) increased other local grants and regular instruction by \$2,535.
 - Dollar General Literacy Grant – Schimpf Fund increased other local grants by \$3,950, instructional staff by \$3,917, and ending fund balance by \$33.

- Tiffin Charitable Trust – Kagy Fund increased beginning fund balance and regular instruction by \$5,700.
- Clean Diesel Grant Fund increased intergovernmental revenue and pupil transportation by \$6,670.
- Save a Life – Tiffin Charitable Foundation Fund increased other local grants and regular instruction by \$3,075.
- North Central Electric – Mr. Powers Fund increased beginning fund balance and regular instruction by \$3,500.
- Buckeye Best Program Fund increased beginning and ending fund balances by \$365.

These errors occurred as a result of a lack of understanding of the proper classification of fund balances in accordance with GASB 54.

Adjustments were recorded to the financial statements to record the activity to the correct fund classification.

In order to ensure the District's governmental fund balances are reported in accordance with GASB 54, we recommend the District review Auditor of State Bulletin 2011-004.

Officials' Response:

I was not aware of GASB 54. In researching its effective date I see it was released in February 2009. I have undergone an audit every year since then and this is the first it was brought to my attention. Now that we are aware we will make the necessary changes.

**SENECA EAST LOCAL SCHOOL DISTRICT
SENECA COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016**

Finding Number	Finding Summary	Status	Additional Information
2015-001	Ohio Rev. Code § 5705.10 (D) due to incorrect posting of lunchroom revenues to specific funds.	Corrected for food service fund; however, reissued as a management letter noncompliance citation for a different fund.	Additional errors were made and not detected. The changes were made to reflect proper distribution on May 10, 2017.
2015-002	Monitoring Financial Reporting - Material weakness due to money posted to wrong account.	Corrected	

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SENECA-EAST LOCAL SCHOOL DISTRICT

SENECA 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
JULY 18, 2017**