



Dave Yost • Auditor of State

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY
JUNE 30, 2017**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Central Local School District
Defiance County
06289 U.S. Highway 127
Sherwood, Ohio 43556-9735

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Central Local School District, Defiance County, Ohio (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Districts 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 cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Central Local School District, Defiance County, Ohio, as of June 30, 2017, and the respective changes in cash financial position and the respective budgetary comparison for the General and Classroom Facilities Maintenance funds thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 16, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

April 16, 2018

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2017**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$6,395,319</u></u>
Net Position:	
Restricted for Debt Service	\$444,556
Restricted for Other Purposes	957,618
Unrestricted	<u>4,993,145</u>
Total Net Position	<u><u>\$6,395,319</u></u>

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Program Cash Receipts</u>			net (Disbursements) Receipts and Changes in Net Position
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:				
Instruction:				
Regular	\$5,022,655	\$468,157	\$32,238	(\$4,522,260)
Special	1,559,259	61,504	953,857	(543,898)
Vocational	174,624		37,737	(136,887)
Student Intervention Services	7,290			(7,290)
Other	774,150			(774,150)
Support Services:				
Pupils	656,077			(656,077)
Instructional Staff	217,004			(217,004)
Board of Education	38,995			(38,995)
Administration	1,028,784			(1,028,784)
Fiscal	288,030		666	(287,364)
Business	60,041			(60,041)
Operation and Maintenance of Plant	755,283			(755,283)
Pupil Transportation	926,069			(926,069)
Central	236,667		5,400	(231,267)
Operation of Non-Instructional Services	453,510	221,898	190,809	(40,803)
Extracurricular Activities	551,713	269,960	20,000	(261,753)
Capital Outlay	2,235,815		35,984	(2,199,831)
Debt Service:				
Principal	145,000			(145,000)
Issuance Costs	48,218			(48,218)
Interest and Fiscal Charges	51,217			(51,217)
Totals	<u>\$15,230,401</u>	<u>\$1,021,519</u>	<u>\$1,276,691</u>	<u>(12,932,191)</u>

General Receipts:

Taxes:	
Property Taxes, Levied for General Purposes	3,619,599
Property Taxes, Levied for Debt Service	165,952
Property Taxes, Levied for Other	43,858
Income Taxes	920,844
Grants and Entitlements not Restricted to Specific Programs	6,888,360
Gifts and Donations	26,930
Interest	56,678
Miscellaneous	56,589
Energy Conservation Notes Issued	875,000
Other Notes Issued	1,430,000
Proceeds from Sale of Capital Assets	11,841
Refund of Prior Year Expenditures	48,023
Total General Receipts	<u>14,143,674</u>
Change in Net Position	1,211,483
Net Position Beginning of Year	<u>5,183,836</u>
Net Position End of Year	<u>\$6,395,319</u>

See Accompanying Notes to the Basic Financial Statements

CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2017

	General Fund	Building Fund	Classroom Facilities Maintenance Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Assets:						
Equity in Pooled Cash and Cash Equivalents	\$4,256,187	\$242,123	\$689,446	\$915,468	\$292,095	\$6,395,319
Fund Balances:						
Restricted		\$242,123	\$689,446		\$292,095	\$1,223,664
Committed				\$915,468		915,468
Assigned	\$1,873,920					1,873,920
Unassigned	2,382,267					2,382,267
Total Fund Balances	\$4,256,187	\$242,123	\$689,446	\$915,468	\$292,095	\$6,395,319

See Accompanying Notes to the Basic Financial Statements

CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY

STATEMENT OF RECEIPTS, DISBURSEMENT, AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	Building Fund	Classroom Facilities Maintenance Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Cash Receipts:						
Property and Other Local Taxes	\$3,619,599		\$43,858		\$165,952	\$3,829,409
Income Tax	920,844					920,844
Intergovernmental	7,374,909		41,882		727,253	8,144,044
Interest	53,975	\$2,703	666		1,085	58,429
Tuition and Fees	524,281					524,281
Rent	1,260					1,260
Extracurricular Activities	30,874				207,015	237,889
Gifts and Donations	26,930				18,915	45,845
Customer Sales and Services	4,120				253,969	258,089
Miscellaneous	56,420		49		461	56,930
Total Cash Receipts	<u>12,613,212</u>	<u>2,703</u>	<u>86,455</u>		<u>1,374,650</u>	<u>14,077,020</u>
Cash Disbursements:						
Current:						
Instruction:						
Regular	4,989,334				33,321	5,022,655
Special	1,078,072				481,187	1,559,259
Vocational	174,624					174,624
Student Intervention Services	7,290					7,290
Other	774,150					774,150
Support Services:						
Pupils	656,077					656,077
Instructional Staff	217,004					217,004
Board of Education	38,995					38,995
Administration	1,028,750	34				1,028,784
Fiscal	285,905		441		1,684	288,030
Business	60,041					60,041
Operation and Maintenance of Plant	755,283					755,283
Pupil Transportation	926,069					926,069
Central	201,304				35,363	236,667
Operation of Non-Instructional Services			1,396		452,114	453,510
Extracurricular Activities	289,274				262,439	551,713
Capital Outlay	59,310	2,046,886	45,087	\$84,532		2,235,815
Debt Service:						
Principal					145,000	145,000
Interest and Fiscal Charges		10,442			40,775	51,217
Issuance Costs		48,218				48,218
Total Cash Disbursements	<u>11,541,482</u>	<u>2,105,580</u>	<u>46,924</u>	<u>84,532</u>	<u>1,451,883</u>	<u>15,230,401</u>
Excess of Cash Receipts Over (Under) Cash Disbursements	<u>1,071,730</u>	<u>(2,102,877)</u>	<u>39,531</u>	<u>(84,532)</u>	<u>(77,233)</u>	<u>(1,153,381)</u>
Other Financing Sources and (Uses):						
Transfers In				500,000	40,000	540,000
Advances In		40,000				40,000
Energy Conservation Notes Issued		875,000				875,000
Other Notes Issued		1,430,000				1,430,000
Proceeds from Sale of Capital Assets	11,841					11,841
Refund of Prior Year Expenditures	44,641				3,382	48,023
Transfers Out	(540,000)					(540,000)
Advances Out	(40,000)					(40,000)
Total Other Financing Sources and (Uses)	<u>(523,518)</u>	<u>2,345,000</u>		<u>500,000</u>	<u>43,382</u>	<u>2,364,864</u>
Net Change in Fund Balances	548,212	242,123	39,531	415,468	(33,851)	1,211,483
Fund Balances at Beginning of Year	3,707,975		649,915	500,000	325,946	5,183,836
Fund Balances at End of Year	<u>\$4,256,187</u>	<u>\$242,123</u>	<u>\$689,446</u>	<u>\$915,468</u>	<u>\$292,095</u>	<u>\$6,395,319</u>

See Accompanying Notes to the Basic Financial Statements

CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget
Receipts:				
Property and Other Local Taxes	\$3,622,000	\$3,622,000	\$3,619,599	(\$2,401)
Income Tax	900,000	900,000	920,844	20,844
Intergovernmental	7,425,185	7,425,185	7,374,909	(50,276)
Interest	30,000	30,000	53,975	23,975
Tuition and Fees	503,000	503,000	484,464	(18,536)
Rent	3,000	3,000	1,260	(1,740)
Gifts and Donations	2,700	2,700	5,715	3,015
Customer Sales and Services	350	350	373	23
Miscellaneous	10,000	10,000	54,535	44,535
Total Receipts	<u>12,496,235</u>	<u>12,496,235</u>	<u>12,515,674</u>	<u>19,439</u>
Disbursements:				
Current:				
Instruction:				
Regular	5,260,330	5,409,205	5,118,674	290,531
Special	1,081,165	1,124,865	1,078,473	46,392
Vocational	191,950	191,960	174,902	17,058
Adult/Continuing	100,000	1,550		1,550
Student Intervention Services		9,240	7,290	1,950
Other	788,025	774,600	774,150	450
Support Services:				
Pupils	638,575	676,425	656,293	20,132
Instructional Staff	234,105	234,456	217,214	17,242
Board of Education	87,275	87,276	45,424	41,852
Administration	1,060,261	1,066,861	973,703	93,158
Fiscal	340,725	309,600	286,668	22,932
Business	75,650	75,650	60,041	15,609
Operation and Maintenance of Plant	965,922	934,148	772,450	161,698
Pupil Transportation	1,145,447	1,130,147	999,517	130,630
Central	190,629	224,504	212,897	11,607
Extracurricular Activities	279,975	295,500	289,274	6,226
Capital Outlay	133,226	189,326	104,367	84,959
Total Disbursements	<u>12,573,260</u>	<u>12,735,313</u>	<u>11,771,337</u>	<u>963,976</u>
Excess of Receipts Over (Under) Disbursements	<u>(77,025)</u>	<u>(239,078)</u>	<u>744,337</u>	<u>983,415</u>
Other Financing Sources and (Uses):				
Proceeds from Sale of Fixed Assets	3,000	3,000	11,841	8,841
Insurance Recoveries	5,000	5,000		(5,000)
Refund of Prior Year Expenditures	5,000	5,000	44,641	39,641
Transfers Out	(530,000)	(540,000)	(540,000)	-
Advances Out	(30,000)	(40,000)	(40,000)	-
Other Financing Uses	(1,650,000)	(1,467,950)		1,467,950
Total Other Financing Sources and (Uses)	<u>(2,197,000)</u>	<u>(2,034,950)</u>	<u>(523,518)</u>	<u>1,511,432</u>
Net Change in Fund Balance	<u>(2,274,025)</u>	<u>(2,274,028)</u>	<u>220,819</u>	<u>2,494,847</u>
Fund Balance at Beginning of Year	3,252,798	3,252,798	3,252,798	
Prior Year Encumbrances Appropriated	359,612	359,612	359,612	
Fund Balance at End of Year	<u>\$1,338,385</u>	<u>\$1,338,382</u>	<u>\$3,833,229</u>	<u>\$2,494,847</u>

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - BUDGET BASIS
CLASSROOM FACILITIES MAINTENANCE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Receipts:				
Property and Other Local Taxes	\$43,700	\$43,700	\$43,858	\$158
Intergovernmental	42,485	42,485	41,882	(603)
Interest	225	225	666	441
Miscellaneous	100	100	49	(51)
Total Receipts	<u>86,510</u>	<u>86,510</u>	<u>86,455</u>	<u>(55)</u>
Disbursements:				
Current:				
Support Services:				
Fiscal	1,000	1,000	441	559
Operation of Non-Instructional Services	11,000	11,000	1,396	9,604
Capital Outlay	125,500	147,273	45,087	102,186
Total Disbursements	<u>137,500</u>	<u>159,273</u>	<u>46,924</u>	<u>112,349</u>
Excess of Receipts Over (Under) Disbursements	<u>(50,990)</u>	<u>(72,763)</u>	<u>39,531</u>	<u>112,294</u>
Other Financing Uses:				
Other Financing Uses	<u>(300,000)</u>	<u>(300,000)</u>	<u></u>	<u>300,000</u>
Net Change in Fund Balance	(350,990)	(372,763)	39,531	412,294
Fund Balance at Beginning of Year	632,957	632,957	632,957	
Prior Year Encumbrances Appropriated	21,773	21,773	21,773	
Fund Balance at End of Year	<u>\$303,740</u>	<u>\$281,967</u>	<u>\$694,261</u>	<u>\$412,294</u>

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2017**

	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets:		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	<u>\$4,385</u>	<u>\$52,013</u>
Liabilities:		
Current Liabilities:		
Undistributed Monies		<u>\$52,013</u>
Net Position:		
Held in Trust for Scholarships	<u>\$4,385</u>	

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Private Purpose Trust</u>
Additions:	
Interest	<u>\$12</u>
Change in Net Position	12
Net Position Beginning of Year	<u>4,373</u>
Net Position End of Year	<u><u>\$4,385</u></u>

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Central Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Central Local School District is a local school district as defined by §3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's two instructional/support facilities staffed by 63 non-certified and 81 certified full-time teaching personnel who provide services to 1,055 students and other community members.

A. Primary Government

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

B. Component Units

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. 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. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the District, are accessible to the District, and are significant in amount to the District. The District does not have any component units.

C. Jointly Governed Organizations and Purchasing Pools

The District is associated with organizations, which are defined as jointly governed organizations and group purchasing pools. These organizations include the Northwest Ohio Computer Association (NWOCA), the Northern Buckeye Education Council, the Four County Career Center, the Education Regional Services System, the Northern Buckeye Health Plan's Employee Insurance Benefits Program, and the Northern Buckeye Health Plan's Workers' Compensation Group Rating Plan. These organizations are presented in Notes 15 and 16 to the notes to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the District's accounting policies.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

A. Basis of Presentation

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

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

2. Fund Financial Statements

During the fiscal year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report more detailed information about the District. The focus of governmental financial statements is on major funds. Fund statements present each major fund in a separate column and aggregate nonmajor funds in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

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

1. Governmental Funds

The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. The District's major governmental funds are the General Fund, the Special Revenue Classroom Facilities Maintenance Fund, the Building Fund, and the Capital Projects Fund.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Classroom Facilities Maintenance Fund – This fund accounts for local (i.e. property tax money) and state resources used for maintenance of the District's elementary building facility.

Building Fund – The Building Fund is used to account for the revenues and expenditures related to capital outlay.

Capital Projects Fund – The Capital Projects Fund is used to account for the revenues and expenditures related to capital outlay.

The other governmental funds of the District account for grants and other resources, debt retirement, and capital projects of the District whose uses are restricted to a particular purpose.

2. Fiduciary Funds

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 not available to support the District's own programs. The District's private purpose trust fund accounts for college scholarships for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds account for various student-managed activities and OHSAA tournament monies.

C. Basis of Accounting

Although Ohio Administrative Code Section 117-2-03 (B) requires the District's financial report to follow generally accepted accounting principles (GAAP), the District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. This basis is a comprehensive basis of accounting other than generally accepted accounting principles.

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

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

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. Budgetary Process

The budgetary process is prescribed by provision of the Ohio Revised Code and entails the preparation of budgetary documents within established timetable. All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the object level for the General Fund and at the fund level for all other funds.

Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years.

The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. Expenditures plus encumbrances may not legally exceed appropriations.

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes the subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. Encumbrances at year-end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds and may be reported as restricted, committed, or assigned classifications of fund balance.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Cash and Investments

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

During fiscal year 2017, investments were limited to commercial paper, negotiable certificates of deposits, federal agency securities, a U.S. treasury note, a U.S. government money market mutual fund and STAR Ohio. All investments are reported at cost, except for STAR Ohio and the money market mutual fund. The District's money market mutual fund investment is recorded at the amount reported by US Bank at June 30, 2017.

The District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2017. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2017.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2017 amounted to \$53,975, of which \$19,197 was interest assigned from other District funds.

For presentation of the 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 that are not purchased from the pool are reported as investments.

F. Inventory

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

G. Capital Assets

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

H. Interfund Receivables/Payables

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

I. Compensated Absences

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

**CENTRAL LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

J. Pension Plans

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

K. Long-Term Obligations

The District's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither another financing source nor capital outlay expenditure are reported at inception. Lease payments are reported when paid.

L. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the acquisition and construction of capital improvements.

M. Interfund Transactions

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

N. Net Position

Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for food service operations, music and athletic programs, and Federal and State grants restricted to cash disbursement for specified purposes. The District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position is available. There are no amounts restricted by enabling legislation.

O. 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 use of the resources in governmental funds. The classifications are as follows:

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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

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

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

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

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

3. ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2017, the District has, to the extent it applies to the cash basis of accounting, implemented GASB Statement No. 77, "*Tax Abatement Disclosures*", GASB Statement No. 78, "*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*", GASB Statement No. 80, "*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*" and GASB Statement No. 82, "*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*".

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. These disclosures were incorporated in the District's fiscal year 2017 financial statements (see Note 17); however, there was no effect on beginning net position/fund balance.

**CENTRAL LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE – (Continued)

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the District.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the District.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the District.

B. Compliance

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

4. BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund and Special Revenue Classroom Facilities Maintenance Fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between budgetary basis and the cash basis is outstanding year-end encumbrances are treated as cash disbursements (budgetary basis) rather than as assigned fund balance (cash basis) and certain funds included in the General Fund as part of the GASB 54 requirements are not included in the budgetary statement.

The following table summarizes the adjustments necessary to reconcile to cash basis statements to the budget basis statements for the General Fund and Classroom Facilities Maintenance Fund (major special revenue governmental fund):

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING – (Continued)

Net Change in Fund Balance	General Fund	Classroom Facilities Maintenance Fund
Cash Basis	\$548,212	\$39,531
Outstanding Encumbrances	(324,504)	
Perspective Difference:		
Activity of Funds Reclassified for Cash Basis Reporting Purposes	(2,889)	
Budgetary Basis	\$220,819	\$39,531

5. DEPOSITS AND INVESTMENTS

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

Active monies are public monies determined to be necessary to meet current demands upon the District Treasury. Active 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 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 monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, 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 agreement by at least two percent and to 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. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

5. DEPOSITS AND INVESTMENTS - (Continued)

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if trading requirements have been met and Board approval have been met, for a period not to exceed 270 days and 180 days, respectively, from the purchase date in an amount not to exceed 40% of interim monies available for investment at any one time.
9. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation 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. Payments 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.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$900,014 of the District's bank balance of \$1,492,451 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

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

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

5. DEPOSITS AND INVESTMENTS - (Continued)

Investment Type	Balance at Cost	Less than One Year	One to Two Years	Two to Three Years	Three to Five Years
Negotiable Certificates of Deposit	\$916,649	\$359,820	\$401,984		\$154,845
Federal Home Loan Mortgage Corporation (FHLMC)	429,885		254,885	\$175,000	
Federal National Mortgage Association (FNMA) Bonds	755,000		250,000		505,000
Money Market Mutual Fund	23,948	23,948			
Commercial Paper	929,973	929,973			
STAR Ohio	2,594,257	2,594,257			
Total	\$5,649,712	\$3,907,998	\$906,869	\$175,000	\$659,845

Interest Rate Risk - The District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase.

Credit Risk – The following investments carry one of the highest ratings by Moody’s and Standard and Poor’s.

Investment Type	Moody’s	Standard & Poor’s
Commercial Paper	P-1	A-1
FHLMC	Aaa	AA+
FNMA	Aaa	AA+
Money Market Mutual Fund	Aaa	AAAm
STAR Ohio		AAAm

The District’s investment policy authorizes the Treasurer to invest a maximum of forty percent of the District’s interim funds in commercial papers notes issued by a for profit corporation, business trust or association, real estate investment trust, common law trust, unincorporated business or general or limited partnerships which has assets exceeding \$500,000,000. Such notes must be rated at the time of purchase in the highest classification established by at least two rating services, have an aggregate value that does not exceed ten percent of the outstanding commercial paper of the issuing entity and mature within 180 days after purchase. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The District has no investment policy dealing with investment credit risk beyond the requirements in State statute.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The negotiable certificates of deposit are covered by FDIC. The federal agency securities are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty’s trust department or agent but not in the District’s name. The District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the CFO/Treasurer or qualified trustee.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

5. DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk - The District places no limit on the amount it may invest in any one issuer; however, state statute limits investments in commercial paper to 25 percent of the interim monies available for investment at any one time. The District's investments in commercial paper Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), and the money market mutual fund represent 16 percent, 8 percent, 13 percent, and .4 percent, respectively of the of the District's total investments.

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2017 represent the collection of calendar year 2016 taxes. Real property taxes for 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 real and tangible personal property taxes for 2017 were levied after April 1, 2016, on the assessed values as of December 31, 2015, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2017 (other than public utility property) represent the collection of calendar year 2017 taxes levied against local and interchange telephone companies. Tangible personal property taxes received from telephone companies in calendar year 2017 were levied after October 1, 2016 on the value as of December 31, 2016. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Defiance and Williams Counties. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2017, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

	2016 Second- Half Collections		2017 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$160,037,920	92%	\$162,835,480	92%
Industrial/Commercial	2,945,680	2%	2,903,670	2%
Public Utility	9,943,210	6%	10,128,460	6%
Total Assessed Value	<u>\$172,926,810</u>	<u>100%</u>	<u>\$175,867,610</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$25.15		\$25.15	

**CENTRAL LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

7. INCOME TAX

The District levies a voted tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1992, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax receipts in the amount of \$920,844 were credited to the General Fund.

8. RISK MANAGEMENT

A. Comprehensive

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 90% co-insured.

Insurance coverage provided through Phelan Insurance Agency includes the following:

Education General Liability:	
Each Occurrence	\$1,000,000
Personal and Advertising Injury Limit – Each Offense	1,000,000
General Aggregate Limit	2,000,000
Products – Completed Operations Limit	2,000,000
Employee Benefits Liability:	
Each Offense	1,000,000
Aggregate Limit	3,000,000
Employer’s Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease-Each Employee	1,000,000
Aggregate Limit (includes \$3,000,000 umbrella coverage)	4,000,000
Errors and Omissions Liability (\$1,000 deductible):	
Per Occurrence	1,000,000
Aggregate Limit	1,000,000
Auto Liability:	
Each Accident	1,000,000
Umbrella Coverage	3,000,000

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

B. Employee Insurance Benefits Program

The District participates in the Northern Buckeye Health Plan, Northwest Division of Optimal Health Initiative Consortium (OHI) Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities. The District pays monthly premiums to the OHI for the benefits offered to its employees, which includes health, dental, vision, and life insurance plans. Northern Buckeye Health Plan is responsible for the management and operations of the Program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

**CENTRAL LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

8. RISK MANAGEMENT - (Continued)

C. Workers' Compensation Group Program

The District participates in the Northern Buckeye Health Plan, Northern Division of OHI (NBHP) Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. 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. The District paid no premiums during the 2017 fiscal year. The Plan is governed by NBHP and the governing members of the Plan. The Executive Director of the NBHP coordinates the management and administration of the program.

9. DEFINED PENSION BENEFIT PLANS

Net Pension Liability

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

The net pension liability represents the 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.

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.

**CENTRAL LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

9. DEFINED PENSION BENEFIT PLANS - (Continued)

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14.0 percent. None of the 14 percent allocation was allocated to the Health Care Fund in fiscal year 2017.

The District's contractually required contribution to SERS was \$184,324 for fiscal year 2017.

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 Ohio. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS Ohio's 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 Ohio Web site at www.strsoh.org.

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

**CENTRAL LOCAL SCHOOL DISTRICT
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9. DEFINED PENSION BENEFIT PLANS - (Continued)

1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11 percent of the 12 percent member rate goes to the DC Plan and 1 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 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 Ohio 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 Ohio bearing the risk of investment gain or loss on the account. STRS Ohio therefore has included all three plan options in the GASB 68 schedules of employer allocations and pension amounts by employer.

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 to 13 percent on July 1, 2015, and will increase another one percent to 14 percent on July 1, 2016. For the fiscal year ended June 30, 2017, 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 2017 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$700,957 for fiscal year 2017.

Net Pension Liability

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

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(Continued)**

9. DEFINED PENSION BENEFIT PLANS - (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$3,105,558	\$15,504,787	\$18,610,345
Proportion of the Net Pension Liability Prior Measurement Date	4.193270%	4.5040570%	
Proportion of the Net Pension Liability Current Measurement Date	<u>4.243100%</u>	<u>4.6320260%</u>	
Change in Proportionate Share	<u>0.0498300%</u>	<u>0.1279690%</u>	

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.5 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (level percent of payroll)

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disable members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

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

9. DEFINED PENSION BENEFIT PLANS - (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The discount rate, assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the June 30, 2016 actuarial valuation. The rates of withdrawal, retirement and disability and mortality rates were also updated to more closely reflect actual experience.

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

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.5 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent), or one percentage point higher (8.5 percent) than the current rate.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

9. DEFINED PENSION BENEFIT PLANS - (Continued)

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
School District's proportionate share of the net pension liability	\$4,111,565	\$3,105,558	\$2,263,488

Actuarial Assumptions - STRS

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

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

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

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

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	7.61 %

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

9. DEFINED PENSION BENEFIT PLANS - (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are excluded. Based on those assumptions, STRS Ohio's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

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

	1% Decrease ▾ (6.75%)	Current Discount Rate ▾ (7.75%)	1% Increase ▾ (8.75%)
School District's proportionate share of the net pension liability	\$20,604,602	\$15,504,787	\$11,202,793

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of July 1, 2016. The most significant changes is a reduction in the discount rate from 7.75 % to 7.45%. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the impact to the District's net pension liability is expected to be significant.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2017, two members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

10. POSTEMPLOYMENT BENEFITS

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.

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

10. POSTEMPLOYMENT BENEFITS - (Continued)

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, the health care allocation is 0.0 percent. 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 2017, this amount was \$23,500. 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 2017, the District's surcharge obligation was \$21,866.

Active members do not contribute to the postemployment benefit plans. The Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2017, 2016, and 2015 were \$21,866, \$21,553, and \$32,440, respectively. The full amount has been contributed for fiscal years 2017, 2016, and 2015.

State Teachers Retirement System of Ohio

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2017, STRS Ohio 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, 2017, 2016, and 2015 were \$0, \$0, and \$0, respectively. The full amount has been contributed for fiscal years 2017, 2016 and 2015.

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

11. COMPENSATED ABSENCES

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Clerical, Technical, and Maintenance and Operation employees are entitled to vacation ranging from 10 to 20 days upon hiring. Employees are permitted to carry over vacation leave earned for two succeeding years.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a prorated basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-third of the accumulated sick leave to a maximum of 60.

12. LONG-TERM OBLIGATIONS

During the year ended June 30, 2017, the following changes occurred in long-term obligations:

	Balance at 6/30/16	Additions	Deductions	Balance at 6/30/17	Due Within One Year
Refunding Bonds Series 2012	\$1,110,000		\$145,000	\$965,000	\$155,000
HB 264 Energy Conservation Notes Series 2016		\$875,000		\$875,000	\$50,000
HB 153 Ground Lease Agreement		1,430,000		1,430,000	80,000
Totals	<u>\$1,110,000</u>	<u>\$2,305,000</u>	<u>\$145,000</u>	<u>\$3,270,000</u>	<u>\$285,000</u>

Debt outstanding at June 30, 2017 consisted of the following:

Proceeds from the bonds were used for the purpose of refunding of general obligation bonds, dated November 1999, which were issued for the purpose of construction on the new elementary building.

The refunding bonds were issued in November 2011. The bonds consisted of \$1,530,000 in current interest serial bonds.

The refunding bonds outstanding are general obligations of the District for which full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to these liabilities are recorded as expenditures in the Debt Service Bond Retirement Fund. The source payment is derived from a current tax levy.

On December 2, 2016, the District approved an \$875,000 note (2.4%) through the Sherwood State Bank for a House Bill 264 Energy Conservation Project. The District made improvements to the Middle and High School by updating the heating and air conditioning, doors, windows, and lighting. Proceeds and the initial interest payment were recorded in the Building Fund; however, future principal and interest payments will be recorded in the General Fund. The note matures on December 1, 2031.

On May 30, 2017, the District approved a \$1,430,000 (2.97%) ground lease agreement through Capital One Public Funding, LLC for a House Bill 153 Design/Build Project. As noted above, the District made improvements to the Middle and High School. Capital One Public Funding LLC has a mortgage on a portion of the District's land and the Middle / High School which the District is leasing from Capital One Public Funding, LLC until the debt has been paid off. Proceeds were recorded in the Building Fund. Principal and interest payments will be paid from the General Fund. The ground lease agreement matures on December 1, 2031.

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

12. LONG-TERM OBLIGATIONS – (Continued)

The scheduled payments of principal and interest on debt outstanding as of June 30, 2017 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2018	\$285,000	\$97,301	\$382,301
2019	460,000	84,808	544,808
2020	280,000	72,482	352,482
2021	295,000	62,569	357,569
2022	300,000	52,321	352,321
2023 - 2027	855,000	160,569	1,015,569
2028 - 2032	795,000	55,620	850,620
Total	<u>\$3,270,000</u>	<u>\$585,670</u>	<u>\$3,855,670</u>

13. FUND BALANCE

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

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

<u>Fund Balance</u>	<u>General</u>	<u>Building</u>	<u>Classroom Maintenance</u>	<u>Capital Projects</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Restricted for:						
Regular Instruction					\$18,476	\$18,476
Special Instruction					6	6
Extracurricular Activities					64,059	64,059
Food Service Operations					7,121	7,121
Facilities Maintenance			\$689,446			689,446
Debt Retirement					202,433	202,433
Building Construction		\$242,123				242,123
Total Restricted		242,123	689,446		292,095	1,223,664
Committed for:						
Permanent Improvements				\$915,468		915,468
Assigned for:						
Subsequent Year Appropriations	\$1,450,360					1,450,360
Educational Activities	99,054					99,054
Unpaid Obligations	324,506					324,506
Total Assigned	1,873,920					1,873,920
Unassigned	2,382,267					2,382,267
Total Fund Balance	<u>\$4,256,187</u>	<u>\$242,123</u>	<u>\$689,446</u>	<u>\$915,468</u>	<u>\$292,095</u>	<u>\$6,395,319</u>

**CENTRAL LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

14. SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

	Capital Acquisition
Set-aside Cash Balance as of June 30, 2016	\$207,115
Current Year Set-aside Requirement	189,677
Current Year Offsets	(\$396,792)
Cash Balance Carried Forward to FY 2018	_____
Set-aside Cash Balance as of June 30, 2017	_____

15. JOINTLY GOVERNED ORGANIZATIONS

A. Northwest Ohio Computer Association

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of educational entities within the boundaries of Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. NWOCA is governed by the Northern Buckeye Education Council and its participating members.

The NWOCA Assembly consists of a superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the Council. NWOCA is governed by a Council chosen from two representatives from each of the six counties in which the member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Board. All payments made by the District for services received are made to the Northern Buckeye Education Council. Total disbursements made by the District to NWOCA during this fiscal year were \$83,846 for various services. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 209 Nolan Parkway, Archbold, Ohio 43502.

B. Northern Buckeye Education Council

The Northern Buckeye Education Council (the Council) was established in 1979 to foster cooperation among school districts located in Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the six counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. The District paid \$0 for services rendered by the Northern Buckeye Education Council. To obtain financial information write to the Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 209 Nolan Parkway, Archbold, Ohio 43502.

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

15. JOINTLY GOVERNED ORGANIZATIONS - (Continued)

C. Four County Career Center

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center and one representative from the participating school districts elected boards. The Four County Career Center possesses its own budgeting and taxing authority. Total disbursements made by the District to Four County Career Center during this fiscal year were \$1,373. To obtain financial information write to the Four County Career Center, Connie Nicely, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

D. Educational Regional Service System

The Educational Regional Services System (System) is a jointly governed organization among the school districts located in Defiance, Fulton, Hancock, Henry, Lucas, Ottawa, Paulding, Putnam Sandusky, Seneca, Van Wert, Williams, and Wood Counties. House Bill 115 established the System and required the creation of a coordinated, integrated, and aligned system to support state and school district efforts to improve school effectiveness and student achievement.

The System is a 16-region system consisting of a State Regional Alliance Advisory Board, an advisory council and 5 specialized subcommittees for each of the 16 regions, a fiscal agent for each region, educational service centers, special education regional resource centers, data acquisition sites, and other regional service providers. The 34 member State Regional Alliance Advisory Board is not a policymaking body. Members are to receive no compensation. The Board's duties are to promote communication and coordination among the State Board of Education, the Department of Education, fiscal agents, advisory councils, and customers of the System. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Educational Service Center of Lake Erie West, 2275 Collingwood, Toledo, Ohio 43620.

16. GROUP PURCHASING POOLS

A. Employee Insurance Benefits Program

The District participates in a group health insurance pool through the Northern Buckeye Health Plan (NBHP), Northwest Division of Optimal Health Initiative Consortium (OHI) Insurance Benefits Program. NBHP is a joint self-insurance arrangement created pursuant to the authority vested in Ohio Rev. Code Section 9.833. NBHP is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. NBHP is governed by OHI and its participating members.

The District contributed a total of \$1,571,887 to Northern Buckeye Health Plan, Northwest Division of OHI for all employee insurance plans. Financial information for the period can be obtained from Jenny Jostworth, Treasurer, at 10999 Reed Hartman Highway, Suite 304E, Cincinnati, Ohio 45242.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

16. GROUP PURCHASING POOLS – (Continued)

B. Workers' Compensation Group Rating Plan

The District participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Health Plan, Northern Division of OHI (NBHP) Workers' Compensation Group Rating Plan (WCGRP) is an insurance purchasing pool. The group was formed to create a workers' compensation group rating plan which would allow employers to group together to achieve a potentially lower premium rate than they may otherwise be able to acquire as individual employers. NBH has created workers' compensation group rating and risk management program which will potentially reduce the workers' compensation premiums for the District.

NBHP has retained Sheakley Uniservice as the servicing agent to perform administrative, actuarial, cost control, claims, and safety consulting services and unemployment claims services for program participants. During this fiscal year, the District's enrollment fee to the WCGRP to cover the costs of administering the program was waived.

17. CONTINGENCIES

A. Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2017.

B. Litigation

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

C. School Funding

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2015-2016 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2017 Foundation funding for the school district; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Continued)**

18. LEASE

In a prior fiscal year, the District acquired a bus by lease agreement. The District disbursed \$23,664 to pay lease costs for the fiscal year ended June 30, 2017. These disbursements are reflected on the Support Services – Pupil Transportation function code in the General Fund on the accompanying financial statements.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2017:

General Long-Term Obligations	
Year Ending June 30:	Bus
2018	\$23,664
2019	23,664
Total Future Minimum Lease Payments	47,328
Less: Amount Representing Interest	(2,054)
Present Value of Future Minimum Lease Payments	\$45,274

19. INTERFUND TRANSACTIONS

Interfund transfers for the fiscal year ended June 30, 2017, consisted of the following, as reported on the fund financial statements:

Transfers from the General Fund	Amount
Nonmajor Governmental Funds:	
Food Service Fund	\$40,000
Major Governmental Fund	
Capital Projects Fund	500,000
Totals	\$540,000

Transfers are used to move receipts 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 receipts collected in the General Fund to finance various programs account for in other funds in accordance with budgetary authorizations. Interfund transfers between governmental funds are eliminated on the government-wide financial statements.

The District advanced \$40,000 from the General Fund to the Building Fund to cover costs associated with the capital improvement energy projects made to the middle and high school.

20. TAX ABATEMENTS ENTERED INTO BY OTHER GOVERNMENTS

The County of Defiance along with Farmer and Mark Townships entered into Tax Increment Financing (TIF's) agreements for public road improvements with various companies to bring jobs and economic development into the area. Annual payments in lieu of taxes are made directly to the townships by the companies for the cost of the road improvements. The agreements affect the property tax receipts collected and distributed to the District. Under the agreements, the District property taxes were reduced by \$22,731 during fiscal year 2017. The District did not receive any compensation for the forgone property taxes.

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Dave Yost • Auditor of State

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

Central Local School District
Defiance County
06289 U.S. Highway 127
Sherwood, Ohio 43556-9735

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Central Local School District, Defiance County, Ohio (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 16, 2018, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. 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 2017-002 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-001.

Entity's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

April 16, 2018

**CENTRAL LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2017**

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

FINDING NUMBER 2017-001

Noncompliance Citation

Ohio Rev. Code § 117.38 provides that each public office, other than a state agency, shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office.

Ohio Admin. Code § 117-2-03(B), which further clarifies the requirements of Ohio Rev. Code § 117.38, requires the District to file annual financial reports which are prepared using generally accepted accounting principles (GAAP).

The District lacked a Governmental Accounting Standards Board (GASB) Statement No. 34 policy and as a cost savings measure, decided to prepare its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while presumably material, cannot be reasonably determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

We recommend the District prepare its financial statements in accordance with generally accepted accounting principles.

Officials' Response:

The District has determined that it is more cost effective to report financial results on a basis other than GAAP. The Board feels that the information contained in such statements is sufficient.

FINDING NUMBER 2017-002

Material Weakness – Monitoring of Financial Statements

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

Accurate financial reporting is the responsibility of the Treasurer and Board of Education, and is essential to ensure the information provided to the readers of the financial statements accurately reflects the District's activity.

The 2017 budgetary statements contained the following errors:

- Classroom Facilities Maintenance Fund year-end outstanding encumbrances totaling \$12,064 did not represent valid encumbrances and were not canceled as of June 30, 2017 thus overstating the Classroom Facilities Maintenance's disbursements and understating the fund balance on the budgetary statement.

- General Fund and Classroom Facilities Maintenance Fund original appropriations were understated by \$5,111,044 and \$415,727 on the budgetary statements, respectively, due to temporary appropriations being posted instead of the first original appropriations intended to cover the full year.
- General Fund actual disbursements were overstated by \$119,959 on the budgetary statement due to Principal and School Supply Funds incorrectly being included.

The District lacked adequate policies and procedures over financial statement review which contributed to the above posting errors occurring without detection. Adjusting entries were posted to the financial statements and the notes to the financial statements to correct these and other errors. Additional insignificant errors were noted and reported on the Summary of Unadjusted Differences.

To help ensure the District's financial statements and notes to the financial statements are complete and accurate, the District should adopt policies and procedures, including a final review of the statements and notes by the Treasurer and the Board, to identify and correct errors and omissions.

Officials' Response:

The District will review the financial reporting errors with the firm that prepared the financial report and monitor these going forward.

CENTRAL LOCAL SCHOOL DISTRICT

06289 US Highway 127, Sherwood, Ohio 43556-9735

419-658-2808 • Fax 419-658-4010

Vicki Brunn
Superintendent

BOARD OF EDUCATION
Jennifer Johns • David Karlstadt
Scott Schindler • Jeff Timbrook • Roger Zeedyk

Kerry Samples
Treasurer

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS JUNE 30, 2017

Finding Number	Finding Summary	Status	Additional Information
2016-001	Finding first reported in 2010. Material noncompliance on Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B) for not reporting financial statements on a Generally Accepted Accounting Principles (GAAP) basis.	Not corrected. Reissued as finding 2017-001 in this report.	The finding reoccurred since the District has determined that it is more cost effective to report financial results on a basis other than GAAP. The Board feels that the information contained in such statements is sufficient.
2016-002	Finding first reported in 2015. Material weakness over financial reporting.	Not corrected. Reissued as finding 2017-002 in this report.	The finding reoccurred due to the compiler overlooking the requirements for budgetary presentation. The District will review the financial reporting errors with the firm that prepared the financial report and monitor these going forward.

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CENTRAL LOCAL SCHOOL DISTRICT

DEFIANCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 10, 2018**