

ARCADIA LOCAL SCHOOL DISTRICT

HANCOCK COUNTY

Audit Report

For the Year Ended June 30, 2015





Dave Yost • Auditor of State

Board of Education
Arcadia Local School District
19033 State Route 12
Arcadia, OH 44804

We have reviewed the *Independent Auditor's Report* of the Arcadia Local School District, Hancock County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2014 through June 30, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Arcadia Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 20, 2016

This page intentionally left blank.

ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY
AUDIT REPORT
For the Year Ending June 30, 2015

TABLE OF CONTENTS

| TITLE | PAGE |
|--|-------|
| Independent Auditors' Report..... | 1-2 |
| Management's Discussion and Analysis..... | 4-11 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Position..... | 13 |
| Statement of Activities..... | 14-15 |
| Fund Financial Statements: | |
| Balance Sheet - Governmental Funds..... | 16 |
| Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities..... | 17 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds..... | 18 |
| Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities..... | 19 |
| Statement of Revenues, Expenditures and Changes in Fund Balance Budget (Non-GAAP Basis) and Actual - General Fund..... | 20 |
| Statement of Fiduciary Assets and Liabilities - Agency Funds..... | 21 |
| Notes to the Basic Financial Statements..... | 22-51 |
| Required Supplementary Information: | |
| Schedule of the District's Proportionate Share of the Net Pension Liability: | |
| School Employees Retirement System (SERS) of Ohio..... | 52 |
| State Teachers Retirement System (STRS) of Ohio..... | 53 |
| Schedule of District Contributions: | |
| School Employees Retirement System (SERS) of Ohio..... | 54-55 |
| State Teachers Retirement System (STRS) of Ohio..... | 56-57 |
| Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 59-60 |
| Schedule of Prior Audit Findings..... | 61 |

This page intentionally left blank.

INDEPENDENT AUDITORS' REPORT

Arcadia Local School District
Hancock County
19033 State Route 12
Arcadia, Ohio 44804

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Arcadia Local School District, Hancock County, Ohio (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Arcadia Local School District, Hancock County, Ohio, as of June 30, 2015, and the respective changes in financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2015, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding these matters.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2016, 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.



Charles E. Harris & Associates, Inc.

January 14, 2016

This page is intentionally left blank.

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

The discussion and analysis of Arcadia Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Highlights for fiscal year 2015 are as follows:

In total, net position increased \$35,568, or 3 percent.

General revenues accounted for 76 percent of total revenues and reflect the School District's significant dependence on property taxes, income taxes, and unrestricted state entitlements.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand Arcadia Local School District as a financial whole, or as an entire operating entity.

The statement of net position and the statement of activities provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds, with all other nonmajor funds presented in total in a single column. For Arcadia Local School District, the General Fund is the most significant fund.

Reporting the School District as a Whole

The statement of net position and the statement of activities reflect how the School District did financially during fiscal year 2015. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the School District's net position and changes in net position. This change in net position is important because it tells the reader whether the financial position of the School District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

In the statement of net position and the statement of activities, all of the School District's activities are presented as governmental activities and include instruction, support services, non-instructional services, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund financial statements provide detailed information about the School District's major funds. While the School District uses many funds to account for its financial transactions, the fund financial statements focus on the School District's most significant funds. The School District's only major fund is the General Fund.

Governmental Funds - All of the School District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

The School District as a Whole

Table 1 provides a summary of the School District's net position for fiscal year 2015 and fiscal year 2014.

Table 1
Net Position

| | Governmental Activities | | Change |
|---------------------------------------|-------------------------|------------------|------------------|
| | 2015 | 2014 | |
| <u>Assets</u> | | | |
| Current and Other Assets | \$7,786,719 | \$7,857,341 | (\$70,622) |
| Capital Assets, Net | 1,893,745 | 1,952,948 | (59,203) |
| Total Assets | <u>9,680,464</u> | <u>9,810,289</u> | <u>(129,825)</u> |
| <u>Deferred Outflows of Resources</u> | | | |
| Pension | <u>507,736</u> | <u>405,143</u> | <u>102,593</u> |
| <u>Liabilities</u> | | | |
| Current and Other Liabilities | 769,895 | 716,989 | (52,906) |
| Long-Term Liabilities | | | |
| Pension | 6,875,342 | 8,170,483 | 1,295,141 |
| Other Amounts | 340,515 | 375,549 | 35,034 |
| Total Liabilities | <u>7,985,752</u> | <u>9,263,021</u> | <u>1,277,269</u> |

(continued)

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

Table 1
Net Position
(continued)

| | Governmental Activities | | Change |
|--------------------------------------|-------------------------|--------------------|--------------------|
| | 2015 | 2014 | |
| <u>Deferred Inflows of Resources</u> | | | |
| Pension | \$1,244,773 | \$0 | (\$1,244,773) |
| Other Amounts | 2,078,677 | 2,108,981 | 30,304 |
| Total Deferred Inflows of Resources | <u>3,323,450</u> | <u>2,108,981</u> | <u>(1,214,469)</u> |
| <u>Net Position</u> | | | |
| Net Investment in Capital Assets | 1,893,745 | 1,952,948 | (59,203) |
| Restricted | 127,248 | 83,708 | 43,540 |
| Unrestricted (Deficit) | <u>(3,141,995)</u> | <u>(3,193,226)</u> | <u>51,231</u> |
| Total Net Position (Deficit) | <u>(1,121,002)</u> | <u>(1,156,570)</u> | <u>\$35,568</u> |

During fiscal year 2015, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions", which significantly revises accounting for pension costs and liabilities. For reasons discussed below, end users of these financial statements will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

GASB standards are national standards and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and State law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB Statement No. 68, the net pension liability equals the School District's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

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

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

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

In accordance with GASB Statement No. 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred outflows/inflows.

As a result of implementing GASB Statement No. 68, the School District is reporting a net pension liability and deferred outflows/inflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$6,608,770 to (\$1,156,570).

With the exception of the changes related to pension, there were few changes of significance from the prior fiscal year. The largest percentage increase is found in current and other liabilities and primarily due to an increase in the liability for matured compensated absences (employees whose retirement or resignation occurred prior to fiscal year end for which payment had not yet been made).

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

Table 2 reflects the change in net position for fiscal year 2015 and fiscal year 2014.

Table 2
Change in Net Position

| | <u>Governmental Activities</u> | | <u>Change</u> |
|--|--------------------------------|----------------------|------------------|
| | <u>2015</u> | <u>2014</u> | |
| <u>Revenues</u> | | | |
| Program Revenues | | | |
| Charges for Services | \$1,196,988 | \$1,138,018 | \$58,970 |
| Operating Grants, Contributions, and Interest | 528,367 | 534,361 | (5,994) |
| Capital Grants and Contributions | 4,597 | 0 | 4,597 |
| Total Program Revenues | <u>1,729,952</u> | <u>1,672,379</u> | <u>57,573</u> |
| General Revenues | | | |
| Property Taxes Levied for General Purposes | 2,469,553 | 2,434,731 | 34,822 |
| Income Taxes Levied for General Purposes | 798,500 | 798,170 | 330 |
| Grants and Entitlements not Restricted to Specific Programs | 2,049,851 | 2,039,491 | 10,360 |
| Interest | 6,466 | 8,396 | (1,930) |
| Gifts and Donations | 8,867 | 31,131 | (22,264) |
| Miscellaneous | 35,938 | 25,986 | 9,952 |
| Total General Revenues | <u>5,369,175</u> | <u>5,337,905</u> | <u>31,270</u> |
| Total Revenues | <u>7,099,127</u> | <u>7,010,284</u> | <u>88,843</u> |
| <u>Expenses</u> | | | |
| Instruction: | | | |
| Regular | 2,901,838 | 2,925,617 | 23,779 |
| Special | 486,547 | 381,469 | (105,078) |
| Vocational | 270,075 | 310,513 | 40,438 |
| Support Services: | | | |
| Pupils | 228,717 | 229,683 | 966 |
| Instructional Staff | 207,632 | 204,448 | (3,184) |
| Board of Education | 33,160 | 27,899 | (5,261) |
| Administration | 593,646 | 560,261 | (33,385) |
| Fiscal | 216,838 | 204,878 | (11,960) |
| Operation and Maintenance of Plant | 1,226,862 | 596,839 | (630,023) |
| Pupil Transportation | 338,136 | 350,194 | 12,058 |
| Central | 4,681 | 2,409 | (2,272) |
| Non-Instructional Services | 302,275 | 282,710 | (19,565) |
| Extracurricular Activities | 253,152 | 299,890 | 46,738 |
| Total Expenses | <u>7,063,559</u> | <u>6,376,810</u> | <u>(686,749)</u> |
| Increase in Net Position | 35,568 | 633,474 | 597,906 |
| Net Position (Deficit) at Beginning of Year | (1,156,570) | n/a | |
| Net Position (Deficit) at End of Year | <u>(\$1,121,002)</u> | <u>(\$1,156,570)</u> | <u>\$35,568</u> |

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

The information necessary to restate the fiscal year 2014 beginning balance and the fiscal year 2014 pension expense amounts for the effects of the initial implementation of GASB Statement No. 68 is not available. Therefore, fiscal year 2014 functional expenses still include pension expense of \$405,143 computed under GASB Statement No. 27. GASB Statement No. 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB Statement No. 68, pension expense represents additional amounts earned adjusted by deferred outflows/inflows. The contractually required contribution is no longer a component of pension expense. Under GASB Statement No. 68, the fiscal year 2015 statements report pension expense of \$289,922. Consequently, in order to compare fiscal year 2015 total program expenses to fiscal year 2014, the following adjustments are needed.

| | |
|---|-------------|
| Total 2015 Program Expenses under GASB Statement No. 68 | \$7,099,127 |
| Pension Expense under GASB Statement No. 68 | (289,922) |
| 2015 Contractually Required Contribution | 442,883 |
| Adjusted 2015 Program Expenses | 7,252,088 |
| Total 2014 Program Expenses under GASB Statement No. 27 | (6,376,810) |
| Increase in Program Expenses not Related to Pension | \$875,278 |

Overall, total revenues increased 1 percent. Program revenues increased 3 percent as charges for services increased due to higher open enrollment. General revenues were consistent with fiscal year 2014.

Expenses (not related to pension) increased 14 percent. The primary cause for this increase was due to costs related to window repair/replacement expensed during the year. Not surprisingly, the major expense is for instruction, which accounts for 52 percent of total expenses. Other programs which support the instruction process, including pupils, instructional staff, and pupil transportation account for 11 percent of total expenses. Maintenance of the School District's facilities also represents a significant expense, over 17 percent.

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

Table 3
Governmental Activities

| | Total Cost of Services | | Net Cost of Services | |
|--------------|---------------------------|-------------|-------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Instruction: | | | | |
| Regular | \$2,901,838 | \$2,925,617 | \$1,961,172 | \$1,997,921 |
| Special | 486,547 | 381,469 | 263,829 | 147,340 |
| Vocational | 270,075 | 310,513 | 249,256 | 293,288 |
| | | | | (continued) |

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

Table 3
Governmental Activities
(continued)

| | Total Cost of Services | | Net Cost of Services | |
|---------------------------------------|---------------------------|--------------------|-------------------------|--------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Support Services: | | | | |
| Pupils | \$228,717 | \$229,683 | \$117,487 | \$116,686 |
| Instructional Staff | 207,632 | 204,448 | 207,632 | 204,448 |
| Board of Education | 33,160 | 27,899 | 33,160 | 27,899 |
| Administration | 593,646 | 560,261 | 593,646 | 560,261 |
| Fiscal | 216,838 | 204,878 | 216,838 | 204,878 |
| Operation and Maintenance of Plant | 1,226,862 | 596,839 | 1,226,862 | 596,839 |
| Pupil Transportation | 338,136 | 350,194 | 311,958 | 322,847 |
| Central | 4,681 | 2,409 | 4,681 | 2,409 |
| Non-Instructional Services | 302,275 | 282,710 | (13,275) | (1,488) |
| Extracurricular Activities | 253,152 | 299,890 | 160,361 | 231,103 |
| Total Expenses | <u>\$7,063,559</u> | <u>\$6,376,810</u> | <u>\$5,333,607</u> | <u>\$4,704,431</u> |

With the substantial contribution of general revenues for funding the School District's activities, only a limited number of activities are affected by program revenues. Approximately 32 percent of the costs for regular instruction are offset by program revenues, primarily from tuition and fees. The special instruction program also has approximately 46 percent of its costs offset by program revenues, primarily grants restricted for special instruction programs. Again for fiscal year 2015, program revenues provided for the entire cost of the non-instructional services program. This is primarily due to cafeteria sales, and state and federal subsidies and donated commodities for food service. Extracurricular activities costs are supported by music and athletic fees, ticket sales, gate receipts at musical and athletic events.

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The General Fund had a decrease in fund balance from the prior fiscal year of \$67,502, or 1 percent. This was not a significant change.

General Fund Budgeting Highlights

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

Arcadia Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

During fiscal year 2015, the School District amended its General Fund budget as needed. For revenues, changes from the original budget to the final budget were not significant. There was a 13 percent increase from the final budget to actual revenues, primarily due to tuition and fees (open enrollment increase mentioned previously) and property taxes. For expenditures, there was an increase of over 8 percent from the original budget to the final budget primarily due to projected capital outlay expenditures. Final expenditures were 11 percent less than the final budget as total final expenditures were more in line with the total original projection. Savings were realized in the regular instruction and operation and maintenance of plant, and pupil transportation programs to offset the additional capital outlay.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2015, the School District had \$1,893,745 invested in capital assets (net of accumulated depreciation). Additions were minimal and there were no disposals. For further information regarding the School District's capital assets, refer to Note 10 to the basic financial statements.

Debt

For fiscal year 2015, long-term obligations consisted of the net pension liability and compensated absences. For further information regarding the School District's long-term obligations, refer to Note 16 to the basic financial statements.

Current Issues

Currently, the School District has three different levies in place. In May 2015, the voters renewed a three-year emergency levy that generates approximately \$305,000 annually. In May 2014, the voters renewed a five-year 1 percent income tax levy to raise approximately \$740,000 annually. In March 2012, voters approved a four-year emergency levy which generates approximately \$440,000 annually. All three levies are used to maintain general operating expenditures incurred by the School District.

The School District accepts open enrollment of students from other school districts. During the 2014/2015 school year, one hundred forty-eight students from other school districts attended Arcadia Local School District under the open enrollment program while only forty-eight students left the School District to attend other schools.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Angie Spridgeon, Treasurer, Arcadia Local School District, 19033 State Route 12, Arcadia, Ohio 44804.

This page is intentionally left blank.

Arcadia Local School District
Statement of Net Position
June 30, 2015

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| <u>Assets:</u> | |
| Equity in Pooled Cash and Cash Equivalents | \$4,901,634 |
| Accounts Receivable | 6,802 |
| Accrued Interest Receivable | 383 |
| Intergovernmental Receivable | 22,587 |
| Inventory Held for Resale | 3,607 |
| Materials and Supplies Inventory | 5,646 |
| Income Taxes Receivable | 359,123 |
| Property Taxes Receivable | 2,486,937 |
| Nondepreciable Capital Assets | 27,410 |
| Depreciable Capital Assets, Net | 1,866,335 |
| Total Assets | <u>9,680,464</u> |
| <u>Deferred Outflows of Resources:</u> | |
| Pension | <u>507,736</u> |
| <u>Liabilities:</u> | |
| Accounts Payable | 39,669 |
| Contracts Payable | 98,162 |
| Accrued Wages and Benefits Payable | 423,051 |
| Matured Compensated Absences Payable | 63,554 |
| Intergovernmental Payable | 118,072 |
| Special Termination Benefits Payable | 3,000 |
| Retainage Payable | 24,387 |
| Long-Term Liabilities: | |
| Due Within One Year | 2,297 |
| Due in More Than One Year | |
| Net Pension Liability | 6,875,342 |
| Other Amounts | 338,218 |
| Total Liabilities | <u>7,985,752</u> |
| <u>Deferred Inflows of Resources:</u> | |
| Property Taxes | 2,078,677 |
| Pension | <u>1,244,773</u> |
| Total Deferred Inflows of Resources | <u>3,323,450</u> |
| <u>Net Position:</u> | |
| Net Investment in Capital Assets | 1,893,745 |
| Restricted For: | |
| Other Purposes | 127,248 |
| Unrestricted (Deficit) | (3,141,995) |
| Total Net Position (Deficit) | <u><u>(\$1,121,002)</u></u> |

See Accompanying Notes to the Basic Financial Statements

Arcadia Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2015

| | Program Revenues | | | |
|------------------------------------|--------------------|----------------------|---|----------------------------------|
| | Expenses | Charges for Services | Operating Grants, Contributions, and Interest | Capital Grants and Contributions |
| <u>Governmental Activities:</u> | | | | |
| Instruction: | | | | |
| Regular | \$2,901,838 | \$888,879 | \$51,787 | \$0 |
| Special | 486,547 | 32,982 | 189,736 | 0 |
| Vocational | 270,075 | 0 | 20,819 | 0 |
| Support Services: | | | | |
| Pupils | 228,717 | 0 | 111,230 | 0 |
| Instructional Staff | 207,632 | 0 | 0 | 0 |
| Board of Education | 33,160 | 0 | 0 | 0 |
| Administration | 593,646 | 0 | 0 | 0 |
| Fiscal | 216,838 | 0 | 0 | 0 |
| Operation and Maintenance of Plant | 1,226,862 | 0 | 0 | 0 |
| Pupil Transportation | 338,136 | 26,178 | 0 | 0 |
| Central | 4,681 | 0 | 0 | 0 |
| Non-Instructional Services | 302,275 | 181,422 | 134,128 | 0 |
| Extracurricular Activities | 253,152 | 67,527 | 20,667 | 4,597 |
| Total Governmental Activities | <u>\$7,063,559</u> | <u>\$1,196,988</u> | <u>\$528,367</u> | <u>\$4,597</u> |

General Revenues:

Property Taxes Levied for General Purposes
Income Taxes Levied for General Purposes
Grants and Entitlements not Restricted to Specific Programs
Interest
Gifts and Donations
Miscellaneous
Total General Revenues

Change in Net Position

Net Position (Deficit) at Beginning of Year - Restated (Note 3)
Net Position (Deficit) at End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Position
Governmental
Activities

(\$1,961,172)
(263,829)
(249,256)

(117,487)
(207,632)
(33,160)
(593,646)
(216,838)
(1,226,862)
(311,958)
(4,681)

13,275
(160,361)
(5,333,607)

2,469,553
798,500
2,049,851
6,466
8,867
35,938

5,369,175

35,568

(1,156,570)
(\$1,121,002)

Arcadia Local School District
Balance Sheet
Governmental Funds
June 30, 2015

| | <u>General</u> | <u>Other Governmental</u> | <u>Total Governmental Funds</u> |
|--|---------------------------|-------------------------------|---|
| <u>Assets:</u> | | | |
| Equity in Pooled Cash and Cash Equivalents | \$4,758,653 | \$139,416 | \$4,898,069 |
| Accounts Receivable | 6,586 | 216 | 6,802 |
| Accrued Interest Receivable | 383 | 0 | 383 |
| Intergovernmental Receivable | 0 | 22,587 | 22,587 |
| Inventory Held for Resale | 0 | 3,607 | 3,607 |
| Materials and Supplies Inventory | 4,883 | 763 | 5,646 |
| <u>Restricted Assets:</u> | | | |
| Equity in Pooled Cash and Cash Equivalents | 3,565 | 0 | 3,565 |
| Income Taxes Receivable | 359,123 | 0 | 359,123 |
| Property Taxes Receivable | 2,486,937 | 0 | 2,486,937 |
| Total Assets | <u>\$7,620,130</u> | <u>\$166,589</u> | <u>\$7,786,719</u> |
| <u>Liabilities:</u> | | | |
| Accounts Payable | \$38,980 | \$689 | \$39,669 |
| Contracts Payable | 98,162 | 0 | 98,162 |
| Accrued Wages and Benefits Payable | 397,409 | 25,642 | 423,051 |
| Matured Compensated Absences Payable | 63,554 | 0 | 63,554 |
| Intergovernmental Payable | 114,879 | 3,193 | 118,072 |
| Special Termination Benefits Payable | 3,000 | 0 | 3,000 |
| Retainage Payable | 24,387 | 0 | 24,387 |
| Total Liabilities | <u>740,371</u> | <u>29,524</u> | <u>769,895</u> |
| <u>Deferred Inflows of Resources:</u> | | | |
| Property Taxes | 2,078,677 | 0 | 2,078,677 |
| Unavailable Revenue | 79,468 | 0 | 79,468 |
| Total Deferred Inflows of Resources | <u>2,158,145</u> | <u>0</u> | <u>2,158,145</u> |
| <u>Fund Balances:</u> | | | |
| Nonspendable | 4,883 | 763 | 5,646 |
| Restricted | 3,565 | 136,302 | 139,867 |
| Assigned | 1,373,053 | 0 | 1,373,053 |
| Unassigned | 3,340,113 | 0 | 3,340,113 |
| Total Fund Balances | <u>4,721,614</u> | <u>137,065</u> | <u>4,858,679</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$7,620,130</u> | <u>\$166,589</u> | <u>\$7,786,719</u> |

See Accompanying Notes to the Basic Financial Statements

Arcadia Local School District
 Reconciliation of Total Governmental Fund Balances
 to Net Position of Governmental Activities
 June 30, 2015

| | | |
|--|-------------|---------------|
| Total Governmental Fund Balances | | \$4,858,679 |
| <p>Amounts reported for governmental activities on the statement of net position are different because of the following:</p> | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | 1,893,745 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds. | | |
| Accounts Receivable | 6,192 | |
| Income Taxes Receivable | 40,629 | |
| Delinquent Property Taxes Receivable | 32,647 | |
| | | 79,468 |
| Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds. | | (340,515) |
| The net pension liability is not due and payable in the current period, therefore, the liability and related deferred outflows/inflows are not reported in the governmental funds. | | |
| Deferred Outflows - Pension | 507,736 | |
| Deferred Inflows - Pension | (1,244,773) | |
| Net Pension Liability | (6,875,342) | |
| | | (7,612,379) |
| Net Position (Deficit) of Governmental Activities | | (\$1,121,002) |
| <p>See Accompanying Notes to the Basic Financial Statements</p> | | |

Arcadia Local School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2015

| | <u>General</u> | <u>Other Governmental</u> | <u>Total Governmental Funds</u> |
|------------------------------------|--------------------|-------------------------------|---|
| <u>Revenues:</u> | | | |
| Property Taxes | \$2,540,294 | \$0 | \$2,540,294 |
| Income Taxes | 801,540 | 0 | 801,540 |
| Intergovernmental | 2,204,866 | 352,148 | 2,557,014 |
| Interest | 6,466 | 73 | 6,539 |
| Tuition and Fees | 921,890 | 0 | 921,890 |
| Extracurricular Activities | 1,949 | 65,578 | 67,527 |
| Charges for Services | 26,178 | 181,422 | 207,600 |
| Gifts and Donations | 8,867 | 21,131 | 29,998 |
| Miscellaneous | 35,568 | 370 | 35,938 |
| Total Revenues | <u>6,547,618</u> | <u>620,722</u> | <u>7,168,340</u> |
| <u>Expenditures:</u> | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 2,936,680 | 48,803 | 2,985,483 |
| Special | 437,302 | 48,957 | 486,259 |
| Vocational | 277,035 | 0 | 277,035 |
| Support Services: | | | |
| Pupils | 120,320 | 111,230 | 231,550 |
| Instructional Staff | 207,057 | 5,952 | 213,009 |
| Board of Education | 33,160 | 0 | 33,160 |
| Administration | 643,483 | 0 | 643,483 |
| Fiscal | 217,739 | 0 | 217,739 |
| Operation and Maintenance of Plant | 625,380 | 1,081 | 626,461 |
| Pupil Transportation | 311,446 | 0 | 311,446 |
| Central | 4,681 | 0 | 4,681 |
| Non-Instructional Services | 942 | 294,115 | 295,057 |
| Extracurricular Activities | 199,612 | 61,725 | 261,337 |
| Capital Outlay | 600,283 | 771 | 601,054 |
| Total Expenditures | <u>6,615,120</u> | <u>572,634</u> | <u>7,187,754</u> |
| Changes in Fund Balances | (67,502) | 48,088 | (19,414) |
| Fund Balances at Beginning of Year | 4,789,116 | 88,977 | 4,878,093 |
| Fund Balances at End of Year | <u>\$4,721,614</u> | <u>\$137,065</u> | <u>\$4,858,679</u> |

See Accompanying Notes to the Basic Financial Statements

Arcadia Local School District
 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
 of Governmental Funds to Statement of Activities
 For the Fiscal Year Ended June 30, 2015

Changes in Fund Balances - Total Governmental Funds (\$19,414)

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

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current fiscal year.

| | | |
|---|------------------|----------|
| Capital Outlay - Depreciable Capital Assets | 41,618 | |
| Capital Contributions | 4,597 | |
| Depreciation | <u>(105,418)</u> | (59,203) |

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

| | | |
|---------------------------|-------------|----------|
| Delinquent Property Taxes | (70,741) | |
| Income Taxes | (3,040) | |
| Tuition and Fees | <u>(29)</u> | (73,810) |

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 35,034

Except for amounts reported as deferred outflows/inflows, changes in the net pension liability are reported as pension expense on the statement of activities. (289,922)

Contractually required contributions are reported as expenditures in the governmental funds, however, the statement of net position reports these amounts as deferred outflows and deferred inflows. 442,883

Change in Net Position of Governmental Activities \$35,568

See Accompanying Notes to the Basic Financial Statements

Arcadia Local School District
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2015

| | Budgeted Amounts | | Actual | Variance with Final Budget Over (Under) |
|--|--------------------|--------------------|--------------------|--|
| | Original | Final | | |
| <u>Revenues:</u> | | | | |
| Property Taxes | \$2,151,000 | \$2,197,926 | \$2,459,907 | \$261,981 |
| Income Taxes | 700,000 | 700,000 | 785,184 | 85,184 |
| Intergovernmental | 2,049,000 | 2,059,000 | 2,205,939 | 146,939 |
| Interest | 9,000 | 9,000 | 6,380 | (2,620) |
| Tuition and Fees | 657,800 | 657,800 | 921,922 | 264,122 |
| Extracurricular Activities | 15,000 | 5,000 | 1,897 | (3,103) |
| Charges for Services | 0 | 0 | 26,178 | 26,178 |
| Gifts and Donations | 32,200 | 32,200 | 8,855 | (23,345) |
| Miscellaneous | 21,300 | 21,300 | 14,813 | (6,487) |
| Total Revenues | <u>5,635,300</u> | <u>5,682,226</u> | <u>6,431,075</u> | <u>748,849</u> |
| <u>Expenditures:</u> | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 3,268,598 | 3,268,598 | 3,001,021 | 267,577 |
| Special | 505,632 | 505,632 | 431,980 | 73,652 |
| Vocational | 343,516 | 343,516 | 329,389 | 14,127 |
| Support Services: | | | | |
| Pupils | 136,547 | 136,547 | 119,457 | 17,090 |
| Instructional Staff | 222,810 | 222,810 | 241,819 | (19,009) |
| Board of Education | 61,047 | 61,047 | 36,206 | 24,841 |
| Administration | 648,493 | 648,493 | 580,722 | 67,771 |
| Fiscal | 231,976 | 231,976 | 217,665 | 14,311 |
| Operation and Maintenance of Plant | 761,981 | 761,981 | 660,507 | 101,474 |
| Pupil Transportation | 528,291 | 528,291 | 313,565 | 214,726 |
| Central | 4,200 | 4,200 | 4,681 | (481) |
| Non-Instructional Services | 0 | 0 | 942 | (942) |
| Extracurricular Activities | 260,250 | 260,251 | 201,035 | 59,216 |
| Capital Outlay | 24,465 | 624,465 | 609,194 | 15,271 |
| Total Expenditures | <u>6,997,806</u> | <u>7,597,807</u> | <u>6,748,183</u> | <u>849,624</u> |
| Excess of Revenues Under Expenditures | <u>(1,362,506)</u> | <u>(1,915,581)</u> | <u>(317,108)</u> | <u>1,598,473</u> |
| <u>Other Financing Sources (Uses):</u> | | | | |
| Refund of Prior Year Expenditures | 2,500 | 2,500 | 23,696 | 21,196 |
| Refund of Prior Year Receipts | (2,000) | (2,000) | 0 | 2,000 |
| Total Other Financing Sources (Uses) | <u>500</u> | <u>500</u> | <u>23,696</u> | <u>23,196</u> |
| Changes in Fund Balance | (1,362,006) | (1,915,081) | (293,412) | 1,621,669 |
| Fund Balance at Beginning of Year | 4,660,624 | 4,660,624 | 4,660,624 | 0 |
| Prior Year Encumbrances Appropriated | 172,449 | 172,449 | 172,449 | 0 |
| Fund Balance at End of Year | <u>\$3,471,067</u> | <u>\$2,917,992</u> | <u>\$4,539,661</u> | <u>\$1,621,669</u> |

See Accompanying Notes to the Basic Financial Statements

Arcadia Local School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2015

| | |
|--|------------------------|
| <u>Assets:</u> | |
| Equity in Pooled Cash and Cash Equivalents | <u><u>\$80,396</u></u> |
| <u>Liabilities:</u> | |
| Undistributed Assets | \$1,859 |
| Due to Students | 78,537 |
| Total Liabilities | <u><u>\$80,396</u></u> |

See Accompanying Notes to the Basic Financial Statements

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1937. The School District serves an area of approximately sixty-one square miles. It is located in Hancock and Seneca Counties. It is staffed by twenty-six classified employees, thirty-eight certified teaching personnel, and five administrative employees who provide services to five hundred eighty-eight students and other community members. The School District currently operates an elementary/middle/high school.

Reporting Entity

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

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

The School District participates in four jointly governed organizations and two insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, Millstream Career and Technology Center, Hancock County Local Professional Development Committee, Northwestern Ohio Educational Research Council, Inc., Hancock County Schools Health Benefit Fund, and the Ohio School Boards Association Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 18 and 19 to the basic financial statements.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the School District that are governmental activities (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). However, the School District has no business-type activities.

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

Fund Financial Statements

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

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 2 - Summary of Significant Accounting Policies (continued)

B. Fund Accounting

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

Governmental Funds

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

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 balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District did not have any trust funds in fiscal year 2015. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various non-instructional staff-related and student-managed activities.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 2 - Summary of Significant Accounting Policies (continued)

Fund Financial Statements

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

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

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

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 2 - Summary of Significant Accounting Policies (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension and explained in Note 13 to the basic financial statements.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources includes property taxes, unavailable revenue, and pension. Property taxes represent amounts for which there was an enforceable legal claim as of June 30, 2015, but which were levied to finance fiscal year 2016 operations. This amount has been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes income taxes, delinquent property taxes, and other sources. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position and explained in Note 13 to the basic financial statements.

Expenses/Expenditures

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

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the alternative tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The alternative 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 is at the fund level for all funds. Budgetary allocations at the function and object level within all funds are made by the School District Treasurer.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 2 - Summary of Significant Accounting Policies (continued)

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 final amended certificate of estimated resources requested by the School District prior to fiscal year end.

The appropriations resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations 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.

F. Cash and Investments

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

During fiscal year 2015, the School District had no investments.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2015 was \$6,466, which includes \$483 assigned from other School District funds.

Investments of the School District’s cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

G. Inventory

Inventory is presented at cost on a first-in, first-out basis and is expensed/expensed when used. Inventory consists of administrative supplies, custodial supplies, donated and purchased food, and workbooks.

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions. Restricted assets in the General Fund consists of unexpended revenues restricted for the purchase of school buses.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 2 - Summary of Significant Accounting Policies (continued)

I. Capital Assets

All of the School District's capital assets are general capital assets generally resulting from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net position but are not reported on the fund financial statements.

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The School District maintains a capitalization threshold of one thousand dollars. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

| Description | Useful Lives |
|-------------------------------------|----------------|
| Land Improvements | 20 - 100 years |
| Buildings and Building Improvements | 25 - 100 years |
| Furniture, Fixtures, and Equipment | 5 - 60 years |
| Vehicles | 15 - 30 years |

J. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after ten years of service.

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

On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 2 - Summary of Significant Accounting Policies (continued)

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, net pension liability and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year.

L. Capital Contributions

Capital contributions arise from contributions of capital assets from outside sources.

M. Net Position

Net position represents the difference between all other elements on the statement of financial position. Net investment in capital assets consists of capital assets net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources restricted for food service operations, music and athletic programs, and federal and state grants.

The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

N. Fund Balance

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

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 are imposed by law through constitutional provisions.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 2 - Summary of Significant Accounting Policies (continued)

Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (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 School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assigned amounts represent intended uses established by the Board of Education. The Board of Education has authorized the Treasurer to assign fund balance for purchases on order provided those amounts have been lawfully appropriated. The Board of Education has also assigned fund balance to cover a gap between estimated resources and appropriations in the fiscal year 2016 budget.

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.

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

O. Pensions

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

P. Estimates

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

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 3 - Change in Accounting Principle and Restatement of Net Position

For fiscal year 2015, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68". GASB Statement No. 68 established standards for measuring and recognizing pension liabilities, deferred outflows and deferred inflows of resources, and pension expenses/expenditures.

The implementation of this statement had the following effect on net position as previously reported on June 30, 2014.

| | |
|---|-----------------------------|
| Net Position June 30, 2014 | \$6,608,770 |
| Net Pension Liability | (8,170,483) |
| Deferred Outflows - Payments Subsequent to Measurement Date | 405,143 |
| Restated Net Position June 30, 2014 | <u><u>(\$1,156,570)</u></u> |

Other than employer contributions subsequent to the measurement date, the School District made no restatement for deferred outflows or deferred inflows of resources as the information needed to generate these restatements was not available.

Note 4 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed, or assigned fund balance (GAAP basis).

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 4 - Budgetary Basis of Accounting (continued)

The adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund are as follows:

| Changes in Fund Balance | |
|--|-------------|
| GAAP Basis | (\$67,502) |
| <u>Increase (Decrease) Due To:</u> | |
| Revenue Accruals: | |
| Accrued FY 2014, Received in Cash FY 2015 | 602,037 |
| Accrued FY 2015, Not Yet Received in Cash | (694,884) |
| Expenditure Accruals: | |
| Accrued FY 2014, Paid in Cash FY 2015 | (654,548) |
| Accrued FY 2015, Not Yet Paid in Cash | 740,371 |
| Materials and Supplies Inventory | 3,671 |
| Encumbrances Outstanding at Fiscal Year End (Budget Basis) | (222,557) |
| Budget Basis | (\$293,412) |

Note 5 - Deposits and Investments

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

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

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

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

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 5 - Deposits and Investments (continued)

Interim monies held by the School District may 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;
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;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Bankers' acceptances and commercial paper if training requirements have been met.

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

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 6 - Receivables

Receivables at June 30, 2015, consisted of accounts (student fees and billings for user charged services), accrued interest, intergovernmental, income taxes, and property taxes. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables, except income taxes and property taxes, are expected to be collected within one year. Income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

| | <u>Amount</u> |
|-------------------------------------|-----------------|
| Other Governmental Funds | |
| Food Service | \$13,904 |
| Title I | 8,683 |
| Total Intergovernmental Receivables | <u>\$22,587</u> |

Note 7 - Income Taxes

The School District levies a voted tax of 1 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2005, and is currently due to expire in 2019. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

Note 8 - Property Taxes

Property taxes are levied and assessed on a calendar year basis, while the School District's fiscal year runs from July through June. First-half tax distributions are received by the School 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 and public utility property located in the School District. Real property tax revenues received in calendar year 2015 represent the collection of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed values as of January 1, 2014, 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.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 8 - Property Taxes (continued)

Public utility property tax revenues received in calendar year 2015 represent the collection of calendar year 2014 taxes. Public utility real and tangible personal property taxes received in calendar year 2015 became a lien on December 31, 2013, were levied after April 1, 2014, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The School District receives property taxes from Hancock and Seneca Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2015, are available to finance fiscal year 2015 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents real and public utility property taxes which were measurable as of June 30, 2015, and for which there was an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations and are reflected as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources - property taxes.

The amount available as an advance at June 30, 2015, was \$375,613 in the General Fund. The amount available as an advance at June 30, 2014, was \$295,226 in the General Fund.

Collectible delinquent property taxes have been recorded as a receivable and revenue on an accrual basis. On a modified accrual basis, the revenue has been recorded as deferred inflows of resources - unavailable revenue.

The assessed values upon which fiscal year 2015 taxes were collected are:

| | 2014 Second- Half Collections | | 2015 First- Half Collections | |
|---|----------------------------------|-------------|---------------------------------|-------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential | \$77,738,090 | 78.66% | \$78,687,860 | 78.94% |
| Industrial/Commercial | 8,100,370 | 8.20 | 7,939,310 | 7.96 |
| Public Utility | 12,982,050 | 13.14 | 13,057,200 | 13.10 |
| Total Assessed Value | <u>\$98,820,510</u> | <u>100%</u> | <u>\$99,684,370</u> | <u>100%</u> |
| Tax rate per \$1,000 of assessed valuation | \$30.22 | | \$30.15 | |

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

| | Balance at 6/30/14 | Additions | Reductions | Balance at 6/30/15 |
|--|-----------------------|-------------------|------------|-----------------------|
| Governmental Activities | | | | |
| Nondepreciable Capital Assets | | | | |
| Land | \$27,410 | \$0 | \$0 | \$27,410 |
| Depreciable Capital Assets | | | | |
| Land Improvements | 203,359 | 0 | 0 | 203,359 |
| Buildings and Building Improvements | 1,605,779 | 0 | 0 | 1,605,779 |
| Furniture, Fixtures, and Equipment | 850,163 | 46,215 | 0 | 896,378 |
| Vehicles | 720,374 | 0 | 0 | 720,374 |
| Total Depreciable Capital Assets | <u>3,379,675</u> | <u>46,215</u> | <u>0</u> | <u>3,425,890</u> |
| Less Accumulated Depreciation | | | | |
| Land Improvements | (56,788) | (4,595) | 0 | (61,383) |
| Buildings and Building Improvements | (548,692) | (31,876) | 0 | (580,568) |
| Furniture, Fixtures, and Equipment | (557,624) | (34,963) | 0 | (592,587) |
| Vehicles | (291,033) | (33,984) | 0 | (325,017) |
| Total Accumulated Depreciation | <u>(1,454,137)</u> | <u>(105,418)</u> | <u>0</u> | <u>(1,559,555)</u> |
| Depreciable Capital Assets, Net | <u>1,925,538</u> | <u>(59,203)</u> | <u>0</u> | <u>1,866,335</u> |
| Governmental Activities Capital Assets, Net | <u>\$1,952,948</u> | <u>(\$59,203)</u> | <u>\$0</u> | <u>\$1,893,745</u> |

During fiscal year 2015, the School District accepted contributions of depreciable capital assets from outside sources with a fair value \$4,597.

Depreciation expense was charged to governmental functions as follows:

| | |
|------------------------------------|------------------|
| Instruction: | |
| Regular | \$12,751 |
| Special | 288 |
| Vocational | 819 |
| Support Services: | |
| Pupils | 159 |
| Instructional Staff | 470 |
| Administration | 1,003 |
| Fiscal | 346 |
| Operation and Maintenance of Plant | 19,912 |
| Pupil Transportation | 34,300 |
| Non-Instructional Services | 9,590 |
| Extracurricular Activities | 25,780 |
| Total Depreciation Expense | <u>\$105,418</u> |

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 10 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015, the School District contracted for the following insurance coverage:

Coverage provided by Liberty Mutual Insurance is as follows:

| | |
|-----------------------------------|--------------|
| Building and Contents | \$17,163,717 |
| General School District Liability | |
| Per Occurrence | 1,000,000 |
| Aggregate | 2,000,000 |
| Automobile Liability | 1,000,000 |
| Umbrella Liability | 4,000,000 |

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

The School District participates in the Hancock County Schools Health Benefit Fund (Fund), a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Developmental Disabilities. The School District pays monthly premiums to the Fund for employee medical, dental, and life insurance benefits. The Fund is responsible for the management and operations of the program. Upon withdrawal from the Fund, a participant is responsible for the payment of all Fund liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

For fiscal year 2015, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

Note 11 - Other Purchase Commitments

At fiscal year end, the amount of significant encumbrances expected to be honored upon performance by the vendor in fiscal year 2016 are as follows:

| | |
|--------------------------|------------------|
| General Fund | \$222,557 |
| Other Governmental Funds | 41,441 |
| Total | <u>\$263,998</u> |

Note 12 - Defined Benefit Pension Plans

Net Pension Liability

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

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

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

GASB Statement No. 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 the employers. All contributions to date have come solely from the employer (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within thirty years. If the amortization period exceeds thirty years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

Plan Description - School Employees Retirement System (SERS)

Plan Description - School District classified 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. The report can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 12 - Defined Benefit Pension 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; 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; 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 years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service over thirty years. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a 3 percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining .82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$101,396 for fiscal year 2015. Of this amount, \$18,997 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 12 - Defined Benefit Pension Plans (continued)

New members have a choice of three retirement plans; a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). Benefits are established by Ohio Revised Code Chapter 3307. The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by 2 percent of the original base benefit. For members retiring August 1, 2013, or later, the first 2 percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age sixty with five years of qualifying service credit, at age fifty-five with twenty-five years of service credit, or thirty years of service credit regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age sixty with thirty-five years of service or age sixty-five with five years of service on August 1, 2026.

The DCP allows members to place all their member contributions and 9.5 percent of the 14 percent employer contribution 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 fifty and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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

New members who choose the DCP or CP will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's CP account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB Statement No. 68 reporting purposes.

A DBP or CP 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 DCP who become disabled are entitled only to their account balance. If a member of the DCP 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 1 percent on July 1, 2014, and will be increased 1 percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 12 - Defined Benefit Pension Plans (continued)

The School District's contractually required contribution to STRS was \$341,487 for fiscal year 2015. Of this amount, \$60,033 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense.

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|-------------|-------------|--------------|
| Proportionate Share of the Net Pension Liability | \$1,197,825 | \$5,677,517 | \$6,875,342 |
| Proportion of the Net Pension Liability | .02366800% | .02334174% | |
| Pension Expense | \$70,450 | \$219,472 | \$289,922 |

At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|------------------|--------------------|--------------------|
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | \$10,195 | \$54,658 | \$64,853 |
| School District contributions subsequent to the measurement date | 101,396 | 341,487 | 442,883 |
| Total Deferred Outflows of Resources | <u>\$111,591</u> | <u>\$396,145</u> | <u>\$507,736</u> |
| Deferred Inflows of Resources | | | |
| Net difference between projected and actual earnings on pension plan investments | <u>\$194,410</u> | <u>\$1,050,363</u> | <u>\$1,244,773</u> |

\$442,883 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|----------------------------|--------------------|--------------------|----------------------|
| Fiscal Year Ended June 30, | | | |
| 2016 | (\$46,028) | (\$248,926) | (\$294,954) |
| 2017 | (46,028) | (248,926) | (294,954) |
| 2018 | (46,028) | (248,926) | (294,954) |
| 2019 | (46,131) | (248,927) | (295,058) |
| Total | <u>(\$184,215)</u> | <u>(\$995,705)</u> | <u>(\$1,179,920)</u> |

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 12 - Defined Benefit Pension Plans (continued)

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67 as part of the 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, 2014, are presented below.

| | |
|--|--|
| Wage Inflation | 3.25 percent |
| Future Salary Increases, including inflation | 4 percent to 22 percent |
| COLA or Ad Hoc COLA | 3 percent |
| Investment Rate of Return | 7.75 percent net of investment expenses, including inflation |
| Actuarial Cost Method | entry age normal |

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

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

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

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 12 - Defined Benefit Pension Plans (continued)

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

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

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

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

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| School District's Proportionate Share of the Net Pension Liability | \$1,708,939 | \$1,197,825 | \$767,932 |

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 12 - Defined Benefit Pension Plans (continued)

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement.

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

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 eighty-nine and no set back for age ninety and above. Females younger than age eighty are set back four years, one year set back from age eighty through eighty-nine, and no set back for age ninety and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study effective July 1, 2012.

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

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

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 12 - Defined Benefit Pension Plans (continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

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

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|---|------------------------|-------------------------------------|------------------------|
| School District's Proportionate Share of the Net Pension Liability | \$8,127,987 | \$5,677,517 | \$3,605,247 |

Social Security

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2015, none of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

School Employees Retirement System (SERS)

Health Care Plan Description - The School District contributes to the SERS Health Care Fund administered by SERS for classified retirees and their beneficiaries. For GASB Statement No. 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 by visiting the SERS' website at www.ohsers.org under employers/audit resources.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 13 - 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 2015, .82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. State statute provides 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 2015, the School District's surcharge obligation was \$13,563.

The School District's contribution for health care for the fiscal years ended June 30, 2015, 2014, and 2013 was \$6,308, \$763, and \$906, respectively. For fiscal year 2015, 82 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2014 and 2013.

State Teachers Retirement System (STRS)

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

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the health care plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the health care plan. All benefit recipients for the most recent year pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to postemployment health care. The School District's contribution for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$23,555, and \$24,645 respectively. The full amount has been contributed for all three fiscal years.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 14 - Other Employee Benefits

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred days for both classified and certified employees. Upon retirement, payment is made for three-tenths of the accrued but unused sick leave credit to a maximum of sixty days for both classified and certified employees.

B. Health Care Benefits

The School District provides medical, dental, and vision insurance to all employees through the Hancock County Schools Health Benefit Fund. The School District offers life insurance to all employees through the Ohio Schools Council. Depending upon the plan chosen, the employees share the cost of monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

C. Separation Benefits

The School District provides a separation benefit to eligible certified employees. An employee that gives written notice of retirement by December 15 will receive a \$1,000 payment. At June 30, 2015, the School District had a liability for separation benefits of \$3,000.

Note 15 - Long-Term Obligations

Changes in the School District's long-term obligations during fiscal year 2015 were as follows:

| | Balance at 6/30/14 | Additions | Reductions | Balance at 6/30/15 | Amounts Due Within One Year |
|-------------------------------|-----------------------|-----------------|--------------------|-----------------------|--------------------------------------|
| Governmental Activities | | | | | |
| General Long-Term Obligations | | | | | |
| Net Pension Liability | | | | | |
| SERS | \$1,407,460 | \$0 | \$209,635 | \$1,197,825 | \$0 |
| STRS | 6,763,023 | 0 | 1,085,506 | 5,677,517 | 0 |
| Total Net Pension Liability | 8,170,483 | 0 | 1,295,141 | 6,875,342 | 0 |
| Compensated Absences Payable | 375,549 | 51,385 | 86,419 | 340,515 | 2,297 |
| Total Long-Term Obligations | <u>\$8,546,032</u> | <u>\$51,385</u> | <u>\$1,381,560</u> | <u>\$7,215,857</u> | <u>\$2,297</u> |

The School District pays obligations related to employee compensation from the fund benefitting from their service. For additional information related to the net pension liability, see Note 13 to the basic financial statements.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 15 - Long-Term Obligations (continued)

Compensated absences will be paid from the General Fund and the Food Service special revenue fund.

The School District's overall debt margin was \$7,819,941 with an unvoted debt margin of \$86,888 at June 30, 2015.

Note 16 - Set Asides

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

The following cash basis information identifies the change in the fund balance reserve for capital improvements during fiscal year 2015.

| | Capital Improvements |
|------------------------------------|-------------------------|
| Balance June 30, 2014 | \$0 |
| Current Year Set Aside Requirement | 96,345 |
| Qualifying Expenditures | (96,345) |
| Reserve Balance June 30, 2015 | \$0 |

Note 17 - Fund Balance

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

| Fund Balance | General | Other Governmental | Total Governmental Funds |
|------------------------|---------|-----------------------|--------------------------------|
| Nonspendable for: | | | |
| Materials and Supplies | | | |
| Inventory | \$4,883 | \$763 | \$5,646 |
| Restricted for: | | | |
| Athletics and Music | 0 | 22,144 | 22,144 |
| Bus Purchase | 3,565 | 0 | 3,565 |
| Emergency Management | | | |
| Information Systems | 0 | 12,420 | 12,420 |
| Facilities Maintenance | 0 | 464 | 464 |

(continued)

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 17 - Fund Balance (continued)

| Fund Balance | General | Other Governmental | Total Governmental Funds |
|-----------------------------|--------------------|-----------------------|--------------------------------|
| Restricted for (continued): | | | |
| Food Service Operations | \$0 | \$59,519 | \$59,519 |
| Inventory Held for Resale | 0 | 3,607 | 3,607 |
| Regular Instruction | 0 | 2,024 | 2,024 |
| Remedial Reading | 0 | 30,325 | 30,325 |
| Special Needs Children | 0 | 3,651 | 3,651 |
| Technology Improvement | 0 | 2,148 | 2,148 |
| Total Restricted | <u>3,565</u> | <u>136,302</u> | <u>139,867</u> |
| Assigned for: | | | |
| Educational Activities | 13,242 | 0 | 13,242 |
| Projected Budget Shortage | 1,292,944 | 0 | 1,292,944 |
| Unpaid Obligations | 66,867 | 0 | 66,867 |
| Total Assigned | <u>1,373,053</u> | <u>0</u> | <u>1,373,053</u> |
| Unassigned | <u>3,340,113</u> | <u>0</u> | <u>3,340,113</u> |
| Total Fund Balance | <u>\$4,721,614</u> | <u>\$137,065</u> | <u>\$4,858,679</u> |

Note 18 - Jointly Governed Organizations

A. Northwest Ohio Area Computer Services Cooperative

The School District is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Hancock, Mercer, Paulding, Putnam, and Van Wert Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of NOACSC consists of two representatives from each county. During fiscal year 2015, the School District paid \$21,653 to NOACSC for various services. Financial information can be obtained from NOACSC, 645 South Main Street, Lima, Ohio 45804.

B. Millstream Career and Technology Center

The Millstream Career and Technology Center (Center) is a distinct political subdivision of the State of Ohio established under Section 3313.90 of the Ohio Revised Code. The Center provides vocational instruction to students. The Center operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative appointed by the Findlay City School District. The Treasurers from the Hancock and Putnam County Educational Service Centers serve in an ex-officio capacity for all meetings. Financial information can be obtained from the Findlay City School District, 1219 West Main Cross, Suite 101, Findlay, Ohio 45840-3377.

Note 18 - Jointly Governed Organizations (continued)

C. Hancock County Local Professional Development Committee

The Hancock County Local Professional Development Committee (HCLPDC) was established in 1999 to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The HCLPDC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its members. The HCLPDC is governed by a thirteen member Executive Board. Financial information can be obtained from the Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840.

D. Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools, and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., 441 East Market Street, Celina, Ohio 45822.

Note 19 - Insurance Pools

A. Hancock County Schools Health Benefit Fund

The Hancock County Schools Health Benefit Fund is a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Developmental Disabilities. The Plan is a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, vision, and life insurance benefits to the employees of the participants. Each participants' superintendent is appointed to an Administrative Committee which advises the consultant concerning aspects of the administration of the Plan.

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Fund is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Neace Lukens, 285 Cozzins Street, Columbus, Ohio 43215.

B. Ohio School Boards Association Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool.

Arcadia Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

Note 19 - Insurance Pools (continued)

The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the GRP. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

Note 20 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2015.

B. School Foundation

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

C. Litigation

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

Arcadia Local School District
 Required Supplementary Information
 Schedule of the School District's Proportionate Share of the Net Pension Liability
 School Employees Retirement System of Ohio
 Last Two Fiscal Years (1)

| | 2014 | 2013 |
|--|-------------|-------------|
| School District's Proportion of the Net Pension Liability | 0.02366800% | 0.02366800% |
| School District's Proportionate Share of the Net Pension Liability | \$1,197,825 | \$1,407,460 |
| School District's Covered Employee Payroll | \$769,317 | \$545,191 |
| School District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll | 155.70% | 258.16% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 71.70% | 65.52% |

(1) Information prior to 2013 is not available.

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

Arcadia Local School District
 Required Supplementary Information
 Schedule of the School District's Proportionate Share of the Net Pension Liability
 State Teachers Retirement System of Ohio
 Last Two Fiscal Years (1)

| | 2014 | 2013 |
|--|-------------|-------------|
| School District's Proportion of the Net Pension Liability | 0.02334174% | 0.02334174% |
| School District's Proportionate Share of the Net Pension Liability | \$5,677,517 | \$6,763,023 |
| School District's Covered Employee Payroll | \$2,439,193 | \$2,379,023 |
| School District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll | 232.76% | 284.28% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 74.70% | 69.30% |

(1) Information prior to 2013 is not available.

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

Arcadia Local School District
Required Supplementary Information
Schedule of the School District's Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|-------------------|-------------------|-------------------|-------------------|
| Contractually Required Contribution | \$101,396 | \$71,420 | \$74,169 | \$78,349 |
| Contributions in Relation to the Contractually Required Contribution | <u>(101,396)</u> | <u>(71,420)</u> | <u>(74,169)</u> | <u>(78,349)</u> |
| Contribution Deficiency (Excess) | <u><u>\$0</u></u> | <u><u>\$0</u></u> | <u><u>\$0</u></u> | <u><u>\$0</u></u> |
| School District Covered Employee Payroll | \$769,317 | \$545,191 | \$566,176 | \$616,921 |
| Contributions as a Percentage of Covered Employee Payroll | 13.18% | 13.10% | 13.10% | 12.70% |

| <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| \$70,694 | \$72,239 | \$60,850 | \$62,145 | \$68,833 | \$65,288 |
| <u>(70,694)</u> | <u>(72,239)</u> | <u>(60,850)</u> | <u>(62,145)</u> | <u>(68,833)</u> | <u>(65,288)</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$598,594 | \$565,250 | \$669,417 | \$678,439 | \$644,504 | \$617,089 |
| 11.81% | 12.78% | 9.09% | 9.16% | 10.68% | 10.58% |

Arcadia Local School District
Required Supplementary Information
Schedule of the School District's Contributions
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|---|------------------|------------------|------------------|------------------|
| Contractually Required Contribution | \$341,487 | \$309,273 | \$319,520 | \$306,280 |
| Contributions in Relation to the Contractually Required Contribution | <u>(341,487)</u> | <u>(309,273)</u> | <u>(319,520)</u> | <u>(306,280)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| School District Covered Employee Payroll | \$2,439,193 | \$2,379,023 | \$2,457,846 | \$2,356,000 |
| Contributions as a Percentage of Covered Employee Payroll | 14.00% | 13.00% | 13.00% | 13.00% |

| <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$317,682 | \$323,630 | \$330,607 | \$328,650 | \$314,410 | \$297,765 |
| <u>(317,682)</u> | <u>(323,630)</u> | <u>(330,607)</u> | <u>(328,650)</u> | <u>(314,410)</u> | <u>(297,765)</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$2,443,708 | \$2,489,462 | \$2,543,131 | \$2,528,077 | \$2,418,538 | \$2,290,500 |
| 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |

This page is intentionally left blank.

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

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

Arcadia Local School District
Hancock County
19033 State Route 12
Arcadia, Ohio 44804

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Arcadia Local School District, Hancock County, (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 14, 2016. We noted the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*.

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 opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

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

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


Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the District's management in a separate letter dated January 14, 2016.

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.



Charles E. Harris & Associates, Inc.
January 14, 2016

**ARCADIA LOCAL SCHOOL DISTRICT
HANCOCK COUNTY
JUNE 30, 2015**

SCHEDULE OF PRIOR AUDIT FINDINGS

The prior audit report, for the year ending June 30, 2014, reported no material citations or recommendations.

This page intentionally left blank.



Dave Yost • Auditor of State

ARCADIA LOCAL SCHOOL DISTRICT

HANCOCK 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 3, 2016**