



Dave Yost • Auditor of State

**BLANCHESTER LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

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CLINTON COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Blanchester Local School District
Clinton County
951 Cherry Street
Blanchester, Ohio 45107

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Schedule of Receipts and Expenditures of Federal Awards also presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State

Columbus, Ohio

March 28, 2017

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Blanchester Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

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

Financial Highlights

Key financial highlights for 2016 are as follows:

- Net position of governmental activities increased \$238,787, which represents a 12% increase from 2015.
- General revenues accounted for \$13,486,912 in revenue or 75% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,410,702 or 25% of total revenues of \$17,897,614.
- The District had \$17,658,827 in expenses related to governmental activities; \$4,410,702 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$13,486,912 were also used to provide for these programs.

Overview of the Financial Statements

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

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

Government-wide Financial Statements

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

These two statements report the District's *net position* and changes in position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial

Blanchester Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

and non-financial. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Government-wide Financial Statements, the overall financial position of the District is presented in the following manner:

- **Governmental Activities** – Most of the District's programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities, and interest and fiscal charges.

Fund Financial Statements

The analysis of the District's major funds is presented in the Fund Financial Statements. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds.

Governmental Funds Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

Fiduciary Funds Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The District as a Whole

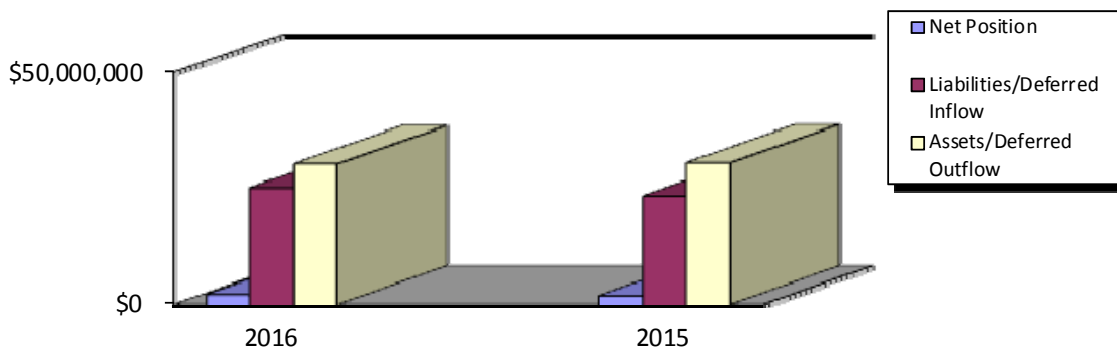
As stated previously, the Statement of Net Position looks at the District as a whole. Table 1 provides a summary of the District's net position for 2016 compared to 2015:

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**Blanchester Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

**Table 1
Net Position**

	Governmental Activities	
	2016	2015
Assets:		
Current and Other Assets	\$10,145,099	\$9,995,874
Capital Assets	20,165,838	20,563,511
Total Assets	30,310,937	30,559,385
Deferred Outflows of Resources:		
Deferred Charge on Refunding Pension	0	75,928
	3,045,901	1,353,008
Total Deferred Outflows of Resources	3,045,901	1,428,936
Liabilities:		
Other Liabilities	1,848,755	1,892,391
Long-Term Liabilities	23,349,775	21,553,858
Total Liabilities	25,198,530	23,446,249
Deferred Inflows of Resources:		
Property Taxes	3,648,215	3,563,188
Pension	2,350,799	3,058,377
Total Deferred Inflows of Resources	5,999,014	6,621,565
Net Position:		
Net Investment in Capital Assets	16,286,910	16,301,935
Restricted	722,804	697,187
Unrestricted	(14,850,420)	(15,078,615)
Total Net Position	\$2,159,294	\$1,920,507



Blanchester Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$2,159,294.

At year-end, capital assets represented 67% of total assets. Capital assets include land, buildings and improvements, and equipment. Capital assets, net of related debt to acquire the assets at June 30, 2016, were \$16,286,910. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$722,804 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Capital Assets decreased mainly due to current year depreciation expense exceeding current year additions. Long-term liabilities increased due primarily to the increase in net pension liability in 2016.

Table 2 shows the changes in net position for fiscal years 2016 and 2015.

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Blanchester Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Table 2
Changes in Net Position

	Governmental Activities	
	2016	2015
Revenues:		
Program Revenues		
Charges for Services	\$1,941,218	\$1,959,853
Operating Grants, Contributions	2,469,484	2,420,674
General Revenues:		
Property Taxes	3,351,532	3,210,187
Grants and Entitlements	9,880,969	9,878,520
Other	254,411	254,977
Total Revenues	<u>17,897,614</u>	<u>17,724,211</u>
Program Expenses:		
Instruction	10,671,753	10,296,059
Support Services:		
Pupil and Instructional Staff	1,035,501	860,103
School Administrative, General		
Administration, Fiscal and Business	1,960,323	2,080,406
Operations and Maintenance	1,368,593	1,446,440
Pupil Transportation	1,102,592	1,296,993
Central	129,358	129,389
Operation of Non-Instructional Services	752,511	805,830
Extracurricular Activities	478,738	620,341
Interest and Fiscal Charges	123,458	193,457
Bond Issuance Cost	36,000	0
Total Program Expenses	<u>17,658,827</u>	<u>17,729,018</u>
Change in Net Position	238,787	(4,807)
Net Position - Beginning of Year	<u>1,920,507</u>	<u>1,925,314</u>
Net Position - End of Year	<u>\$2,159,294</u>	<u>\$1,920,507</u>

The District revenues are mainly from two sources. Property taxes levied for general, debt service, special revenue and capital projects purposes, and grants and entitlements (not restricted) comprised 74% of the District's revenues for governmental activities.

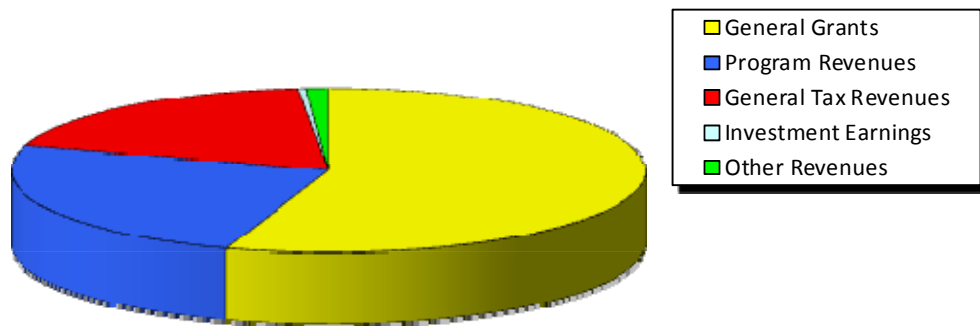
The District depends greatly on property taxes as a revenue source. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenues generated by a levy will not increase solely as a result of inflation. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, Ohio districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 19% of revenue for governmental activities for the District in fiscal year 2016.

**Blanchester Local School District, Ohio
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

**Governmental Activities
Revenue Sources**

Revenue Sources	2016	Percent of Total
General Grants	\$9,880,969	55.2%
Program Revenues	4,410,702	24.6%
General Tax Revenues	3,351,532	18.7%
Investment Earnings	66,806	0.4%
Other Revenues	187,605	1.1%
Investment Revenues	<u>\$17,897,614</u>	<u>100.0%</u>



Instruction comprises 60.4% of governmental program expenses. Support services expenses were 31.7% of governmental program expenses. All other expenses and interest expense was 7.9%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

Operating Grants increased in fiscal year 2016 as compared to fiscal year 2015, which was mainly due to an increase in grants monies received. Total expenses decreased slightly in fiscal year 2016 as compared to 2015.

Governmental Activities

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

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**Blanchester Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Instruction	\$10,671,753	\$10,296,059	(\$7,242,178)	(\$6,901,366)
Support Services:				
Pupil and Instructional Staff	1,035,501	860,103	(1,030,191)	(833,264)
School Administrative, General				
Administration, Fiscal and Business	1,960,323	2,080,406	(1,957,114)	(2,079,673)
Operations and Maintenance	1,368,593	1,446,440	(1,317,973)	(1,393,681)
Pupil Transportation	1,102,592	1,296,993	(1,052,522)	(1,257,117)
Central	129,358	129,389	(123,468)	(127,812)
Operation of Non-Instructional Services	752,511	805,830	(57,538)	(93,152)
Extracurricular Activities	478,738	620,341	(307,683)	(468,969)
Interest and Fiscal Charges	123,458	193,457	(123,458)	(193,457)
Bond Issuance Cost	36,000	0	(36,000)	0
Total Expenses	<u>\$17,658,827</u>	<u>\$17,729,018</u>	<u>(\$13,248,125)</u>	<u>(\$13,348,491)</u>

The District's Funds

The District has two major governmental funds: the General Fund and the Debt Service Fund. Assets of these funds comprised \$9,433,790 (91%) of the total \$10,360,703 governmental funds assets.

General Fund: Fund balance at June 30, 2016 was \$3,899,228, an increase in fund balance of \$176,303. The fund balance increased mainly due to a decrease in total expenditures.

Debt Service Fund: Fund balance at June 30, 2016 was \$332,600, an increase in fund balance of \$32,805 from 2015. The primary reason for the increase in fund balance was due to an increase in cash and investments.

General Fund Budgeting Highlights

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

During the course of fiscal year 2016 the District amended its general fund budget. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, final budget basis revenue was \$16,439,778, compared to original budget estimates of \$16,142,416.

The District's ending unobligated cash balance for the General Fund was \$4,471,569.

**Blanchester Local School District, Ohio
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the District had \$20,165,838 invested in land, buildings and improvements, and equipment. Table 4 shows fiscal year 2016 balances compared to fiscal year 2015:

**Table 4
Capital Assets at Year End
(Net of Depreciation)**

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Land	\$474,430	\$474,430
Buildings and Improvements	18,448,723	18,737,290
Equipment	<u>1,242,685</u>	<u>1,351,791</u>
Total Net Capital Assets	<u><u>\$20,165,838</u></u>	<u><u>\$20,563,511</u></u>

Overall, capital assets decreased due to current year depreciation expense exceeding current year additions.

See Note 6 to the Basic Financial Statements for further details on the District’s capital assets.

Debt

At June 30, 2016, the District had \$3,918,656 in bonds payable, \$450,000 due within one year. Table 5 summarizes bonds outstanding at year end.

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Blanchester Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)

Table 5
Outstanding Debt at Year End

	Governmental Activities	
	2016	2015
General Obligation Bonds:		
2006 Refunding Bonds:		
Current Interest Bonds	\$0	\$2,055,000
Current Appreciation Bonds – Principal Only	0	45,000
Current Appreciation Bonds – Compounding Interest	0	200,217
Premium on Refunding Bonds	0	110,882
2013 Certificate of Participation	1,645,000	1,795,000
2013 Capital Appreciation Bonds	34,999	34,999
2013 Capital Appreciation Bonds - Compounding Interest	39,728	25,668
Premium on 2013 Certificate of Participation	64,843	70,738
2016 Refunding Bonds:		
Current Interest Bonds	2,055,000	0
Premium on 2016 Refunding Bonds	79,086	0
Total Outstanding Debt at Year End	\$3,918,656	\$4,337,504

See Note 7 to the Basic Financial Statements for further details on the District's long-term obligations.

Economic Outlook

The Ohio Department of Education explains the school funding model in Ohio as follows:

The funding of K-12 public schools in Ohio is a joint effort between the state and local school districts. Since the 1970s through FY 2009, with the exception of a few years, Ohio's funding formula was foundation based by means of which a per pupil amount determined by the General Assembly as the per-pupil resource for provision of a basic adequate education was multiplied by the number of pupils to determine the base funding of the school districts. From this product, the local share of the basic adequate amount or the charge off was subtracted to arrive at the state share of the base funding. Additional funding was also provided for services targeted to categories of pupils such as handicapped, vocational, gifted, and economically disadvantaged as well as some adjustments and funding guarantees.

The 2010-11 biennial budget (Am. Sub. HBI of the 128th General Assembly) established another new funding formula called the Evidence-Based Model (EBM). Am. Sub. HB 153 of the 129th General Assembly repealed the EBM and implemented a temporary funding formula, the Bridge Formula, for the 12-13 school year as a new funding formula was developed. The State revised the funding model in June, 2013 and adopted HB 59, the FY 14 and FY 15 biennium budget which again changed the district funding formula, but not district funding.

Given the uncertainty of the school funding formula and the economic conditions within the State, the level at which the State will fund schools in the future remains uncertain. The District remains concerned about the instability of the state economy and the political ramifications of changing the funding formula every two years. We plan carefully and prudently to provide resources to meet the needs of our students but the uncertainty of state funding challenges our planning.

**Blanchester Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
(Unaudited)**

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Darlene Kassner, Treasurer at Blanchester Local School District, 951 Cherry Street, Blanchester, Ohio 45107. Or E-mail at kassnerd@blan.org.

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Blanchester Local School District, Ohio
Statement of Net Position
June 30, 2016

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$5,826,449
Receivables (Net):	
Taxes	4,057,510
Interest	12,891
Intergovernmental	182,944
Prepaid	38,074
Inventory	27,231
Nondepreciable Capital Assets	474,430
Depreciable Capital Assets, Net	<u>19,691,408</u>
 Total Assets	 <u>30,310,937</u>
 Deferred Outflows of Resources:	
Pension	<u>3,045,901</u>
 Total Deferred Outflows of Resources	 <u>3,045,901</u>
 Liabilities:	
Accounts Payable	26,844
Accrued Wages and Benefits	1,669,100
Contracts Payable	142,048
Accrued Interest Payable	10,763
Long-Term Liabilities:	
Due Within One Year	470,687
Due In More Than One Year:	
Net Pension Liability	19,212,502
Other Amounts	<u>3,666,586</u>
 Total Liabilities	 <u>25,198,530</u>
 Deferred Inflows of Resources:	
Property Taxes	3,648,215
Pension	<u>2,350,799</u>
 Total Deferred Inflows of Resources	 <u>5,999,014</u>
 Net Position:	
Net Investment in Capital Assets	16,286,910
Restricted for:	
Debt Service	340,922
Capital Projects	45,192
Classroom Facilities Maintenance	118,754
Extracurricular	56,191
Federal Grants	147,993
Other Purposes	13,752
Unrestricted	<u>(14,850,420)</u>
 Total Net Position	 <u><u>\$2,159,294</u></u>

See accompanying notes to the basic financial statements.

Blanchester Local School District, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2016

	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$6,981,464	\$1,477,635	\$468,202	(\$5,035,627)
Special	2,537,465	63,860	1,348,769	(1,124,836)
Vocational	322,277	0	71,109	(251,168)
Other	830,547	0	0	(830,547)
Support Services:				
Pupil	447,508	0	4,000	(443,508)
Instructional Staff	587,993	0	1,310	(586,683)
General Administration	24,769	0	0	(24,769)
School Administration	1,536,584	0	0	(1,536,584)
Fiscal	391,394	0	3,209	(388,185)
Business	7,576	0	0	(7,576)
Operations and Maintenance	1,368,593	653	49,967	(1,317,973)
Pupil Transportation	1,102,592	0	50,070	(1,052,522)
Central	129,358	0	5,890	(123,468)
Operation of Non-Instructional Services	752,511	228,015	466,958	(57,538)
Extracurricular Activities	478,738	171,055	0	(307,683)
Interest and Fiscal Charges	123,458	0	0	(123,458)
Bond Issuance Cost	36,000	0	0	(36,000)
Totals	\$17,658,827	\$1,941,218	\$2,469,484	(13,248,125)

General Revenues:	
Property Taxes Levied for:	
General Purposes	2,832,028
Special Revenue Purposes	52,124
Debt Service Purposes	349,048
Capital Projects Purposes	118,332
Grants and Entitlements, Not Restricted	9,880,969
Unrestricted Contributions	2,666
Investment Earnings	66,806
Other Revenues	184,939
Total General Revenues	13,486,912
Change in Net Position	238,787
Net Position - Beginning of Year	1,920,507
Net Position - End of Year	\$2,159,294

See accompanying notes to the basic financial statements.

Blanchester Local School District, Ohio
Balance Sheet
Governmental Funds
June 30, 2016

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$5,028,956	\$313,116	\$484,377	\$5,826,449
Receivables (Net):				
Taxes	3,446,948	384,085	226,477	4,057,510
Interest	12,891	0	0	12,891
Intergovernmental	0	0	182,944	182,944
Interfund	213,515	0	2,089	215,604
Prepaid	34,279	0	3,795	38,074
Inventory	0	0	27,231	27,231
Total Assets	8,736,589	697,201	926,913	10,360,703
Liabilities:				
Accounts Payable	18,912	0	7,932	26,844
Accrued Wages and Benefits	1,492,613	0	176,487	1,669,100
Contracts Payable	48,000	0	94,048	142,048
Interfund Payable	0	0	215,604	215,604
Total Liabilities	1,559,525	0	494,071	2,053,596
Deferred Inflows of Resources:				
Property Taxes	3,269,574	364,601	215,550	3,849,725
Grants and Other Taxes	0	0	39,108	39,108
Investment Earnings	8,262	0	0	8,262
Total Deferred Inflows of Resources	3,277,836	364,601	254,658	3,897,095
Fund Balances:				
Nonspendable	34,279	0	3,795	38,074
Restricted	0	332,600	335,634	668,234
Committed	11,000	0	0	11,000
Assigned	3,842,541	0	0	3,842,541
Unassigned	11,408	0	(161,245)	(149,837)
Total Fund Balances	3,899,228	332,600	178,184	4,410,012
Total Liabilities, Deferred Inflows and Fund Balances	\$8,736,589	\$697,201	\$926,913	\$10,360,703

See accompanying notes to the basic financial statements.

Blanchester Local School District, Ohio
 Reconciliation of Total Governmental Fund Balance to
 Net Position of Governmental Activities
 June 30, 2016

Total Governmental Fund Balance		\$4,410,012
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets used in the operation of Governmental Funds		20,165,838
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Delinquent Property Taxes	201,510	
Interest	8,262	
Intergovernmental	<u>39,108</u>	
		248,880
In the statement of net position interest payable is accrued when incurred; whereas, in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		
		(10,763)
Some liabilities reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds.		
Compensated Absences		(218,617)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to pensions	3,045,901	
Deferred inflows of resources related to pensions	<u>(2,350,799)</u>	
		695,102
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Net Pension Liability	(19,212,502)	
Other Amounts	<u>(3,918,656)</u>	
		<u>(23,131,158)</u>
Net Position of Governmental Activities		<u>\$2,159,294</u>

See accompanying notes to the basic financial statements.

Blanchester Local School District, Ohio
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property and Other Taxes	\$2,856,602	\$306,502	\$172,046	\$3,335,150
Tuition and Fees	1,538,987	0	0	1,538,987
Investment Earnings	62,066	0	2,009	64,075
Intergovernmental	11,017,932	45,322	1,416,320	12,479,574
Extracurricular Activities	409	0	170,890	171,299
Charges for Services	0	0	228,668	228,668
Other Revenues	143,833	0	46,455	190,288
Total Revenues	15,619,829	351,824	2,036,388	18,008,041
Expenditures:				
Current:				
Instruction:				
Regular	5,845,744	0	477,026	6,322,770
Special	2,217,387	0	272,888	2,490,275
Vocational	327,848	0	0	327,848
Other	830,547	0	0	830,547
Support Services:				
Pupil	446,297	0	4,000	450,297
Instructional Staff	593,042	0	1,933	594,975
General Administration	24,938	0	0	24,938
School Administration	1,439,856	0	0	1,439,856
Fiscal	383,012	6,868	3,866	393,746
Business	7,576	0	0	7,576
Operations and Maintenance	1,299,058	0	23,623	1,322,681
Pupil Transportation	1,012,781	0	0	1,012,781
Central	124,315	0	8,688	133,003
Operation of Non-Instructional Services	0	0	744,820	744,820
Extracurricular Activities	296,985	0	178,447	475,432
Capital Outlay	404,167	0	246,556	650,723
Debt Service:				
Principal Retirement	150,000	2,100,000	0	2,250,000
Interest and Fiscal Charges	39,973	310,237	0	350,210
Bond Issuance Cost	0	36,000	0	36,000
Total Expenditures	15,443,526	2,453,105	1,961,847	19,858,478
Excess of Revenues Over (Under) Expenditures	176,303	(2,101,281)	74,541	(1,850,437)
Other Financing Sources (Uses):				
Issuance of Refunding Bonds	0	2,055,000	0	2,055,000
Premium on Refunding Bonds	0	79,086	0	79,086
Total Other Financing Sources (Uses)	0	2,134,086	0	2,134,086
Net Change in Fund Balance	176,303	32,805	74,541	283,649
Fund Balance - Beginning of Year	3,722,925	299,795	103,643	4,126,363
Fund Balance - End of Year	\$3,899,228	\$332,600	\$178,184	\$4,410,012

See accompanying notes to the basic financial statements.

Blanchester Local School District, Ohio
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2016

Net Change in Fund Balance - Total Governmental Funds		\$283,649
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital asset additions as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period.</p>		
Capital assets used in governmental activities	646,933	
Depreciation Expense	<u>(1,021,251)</u>	(374,318)
<p>Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. The amount of the proceeds must be removed and the gain or loss on the disposal of capital assets must be recognized. This is the amount of the difference between the proceeds and the gain or loss.</p>		
		(23,355)
<p>Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense</p>		
District pension contributions	1,151,935	
Cost of benefits earned net of employee contributions	<u>(959,990)</u>	191,945
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Delinquent Property Taxes	(28,940)	
Interest	2,731	
Intergovernmental	<u>(84,218)</u>	(110,427)
<p>In the statement of activities, certain costs and proceeds associated with long-term debt obligations issued during the year are accrued and amortized over the life of the debt obligation. In governmental funds these costs and proceeds are recognized as financing sources and uses.</p>		
Premium on Bonds Issued		(79,086)
<p>Repayment of bond principal, current refunding bonds and accreted interest is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
		2,509,954
<p>In the statement of activities interest expense is accrued when incurred; whereas, in governmental funds an interest expenditure is reported when due.</p>		
		(254)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated Absences	(71,373)	
Amortization of Bond Premium	5,895	
Bond Accretion	<u>(38,843)</u>	(104,321)
<p>Proceeds from refunding debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net position.</p>		
		<u>(2,055,000)</u>
Change in Net Position of Governmental Activities		<u>\$238,787</u>

See accompanying notes to the basic financial statements.

Blanchester Local School District, Ohio
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2016

	Private Purpose Trust	Agency
	<u> </u>	<u> </u>
Assets:		
Equity in Pooled Cash and Investments	\$175,748	\$32,127
Receivables (Net):		
Interest	<u> 371</u>	<u> 0</u>
Total Assets	<u> 176,119</u>	<u> 32,127</u>
Liabilities:		
Accounts Payable	0	180
Other Liabilities	<u> 0</u>	<u> 31,947</u>
Total Liabilities	<u> 0</u>	<u> \$32,127</u>
Net Position:		
Held in Trust	<u> 176,119</u>	
Total Net Position	<u> \$176,119</u>	

See accompanying notes to the basic financial statements.

Blanchester Local School District, Ohio
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Fiscal Year Ended June 30, 2016

	Private Purpose Trust
Additions:	
Donations	\$500
Investment Earnings	1,858
Total Additions	<u>2,358</u>
Deductions:	
Other	<u>8,900</u>
Total Deductions	<u>8,900</u>
Change in Net Position	(6,542)
Net Position - Beginning of Year	<u>182,661</u>
Net Position - End of Year	<u><u>\$176,119</u></u>

See accompanying notes to the basic financial statements.

Blanchester Local School District, Ohio
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

Note 1 - Description of the District

The Blanchester Local School District ("District") was originally organized in 1854 and known as Blanchester Village School. On July 1, 1959 Blanchester Village School, Jefferson Township School and Edenton Local School District became Blanchester Local School District. In 1853 State Laws were enacted to create local boards of education. Today, the District operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3301.07 and Section 119.01 of the Ohio Revised Code.

The District operates under a locally elected, five-member board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This board controls the District's four instructional and support facilities staffed by 95 classified, 110 certified and eight administrative employees to provide service to 1,710 students and other community members.

Reporting Entity

The financial reporting entity consists of a primary government. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

There are no component units combined with the District for financial statement presentation purposes, and it is not included in any other governmental reporting entity. Consequently, the District's financial statements include only the funds of those organizational entities for which its elected governing body is financially accountable. The District's major operations include education, pupil transportation, food service, and maintenance of District facilities.

Note 2 - Summary of Significant Accounting Policies

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

Measurement Focus

Government-wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net position. Fiduciary Funds are not included in entity-wide statements.

The government-wide statement of activities presents a comparison for each function or program of the 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 contributions that are restricted to meeting the operational or capital requirements of a particular

Blanchester Local School District, Ohio
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

program. Revenues which are not classified as program revenues are presented as general revenues of the 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 District.

Fund Financial Statements

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

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

Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental, proprietary and fiduciary.

Governmental Funds

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

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

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for the payment of general obligation bond principal and interest and certain other long-term obligations from governmental resources when the District is obligated in some manner for the payment.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and

Blanchester Local School District, Ohio
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

are therefore not available to support the District's own programs. Agency funds are custodian in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's has a private purpose trust fund which accounts for scholarship programs for students. The District has a student activity agency fund which accounts for assets and liabilities generated by student managed activities.

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes available for advance, grants and interest.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes

Blanchester Local School District, Ohio
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

and grants, other taxes (which includes tax incremental financing 'TIF') and pension. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance year 2017 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. TIF's have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue.

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

Equity in Pooled Cash and Investments

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements.

Investments are reported at fair value which is based on quoted market prices.

Interest revenue credited to the general fund during fiscal year 2016 amounted to \$62,066 and \$2,009 in other governmental funds.

Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories are accounted for using the purchase method on the fund level statements and using the consumption method on the government-wide statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance assignment in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

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

Capital Assets

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five hundred dollars (\$500). The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

Blanchester Local School District, Ohio
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

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

<u>Description</u>	<u>Estimated Lives</u>
Building Improvements	20-40 years
Equipment	3-15 years

Pensions

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

Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The 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 vested payment method. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the amount recorded as compensated absences is the amount due at year end. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The entire amount of compensated absences is reported as a fund liability in proprietary funds.

The District's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How Earned	Not Eligible	Per Contract	10-20 days for each service year depending on length of service
Maximum Accumulation	Not Applicable	Not Applicable	Not Applicable
Vested	Not Applicable	As Earned	As Earned

Blanchester Local School District, Ohio
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

Termination Entitlement	Not Applicable	Not Applicable	Not Applicable
<u>Sick Leave</u>			
How Earned	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)
Maximum Accumulation Vested	228 days As Earned	Per Contract As Earned	228 days As Earned
Termination Entitlement	Per Contract	Per Contract	Per Contract

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the District's \$722,804 in restricted net position, none were restricted by enabling legislation.

Interfund Activity

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

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables" and "interfund payables". These amounts are eliminated in the governmental activities column of the statement of net position.

As a general rule, the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated in the process of consolidation.

Blanchester Local School District, Ohio
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting*, the District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories are used:

Nonspendable – resources that are not in spendable form (inventory) or have legal or contractual requirements to maintain the balance intact.

Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the Board of Education.

Assigned – resources that are intended to be used for specific purposes as approved through the District's formal purchasing procedure by the Treasurer.

Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from incurred expenses for specific purposes exceeding amounts which had been restricted, committed or assigned for said purposes.

The District considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

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.

Note 3 - Equity in Pooled Cash and Investments

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the District into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Blanchester Local School District, Ohio
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

Interim Monies – 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. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling is also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June

Blanchester Local School District, Ohio
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

30, 2016, \$107,745 of the District’s bank balance of \$577,743 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the District’s name.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that at all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

Investments

As of June 30, 2016, the District had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Negotiable CDs	\$5,021,773	1.35
Money Market Funds	<u>849,600</u>	0.00
Total Fair Value	<u><u>\$5,871,373</u></u>	
Portfolio Weighted Average Maturity		1.15

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the District’s recurring fair value measurements as of June 30, 2016. STAR Ohio is reported at its share price. All other investments of the District are valued using quoted market prices.

Interest Rate Risk - In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – It is the District’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have the highest quality rating issued by nationally recognized statistical rating organizations. The District’s investments in negotiable CDs, municipal bonds, and money market funds were not rated.

Concentration of Credit Risk – The District’s investment policy allows investments in government sponsored enterprise (GSE) securities. The District has 86% of its investments in negotiable CDs and 14% in money market funds.

Custodial Credit Risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District’s securities are either insured and registered in the name of the District or at least registered in the name of the District.

Blanchester Local School District, Ohio
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

Note 4 - Property Taxes

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real and public utility property located in the District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on real property at 35 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. The District receives property taxes from Clinton County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2017 operations. The amount available for advance can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property and public utility taxes that became measurable as of June 30, 2016. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred inflows of resources for that portion not intended to finance \$177,374 in the General Fund and \$30,411 in Other Governmental Funds.

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

	<u>Amount</u>
Agricultural/Residential and Other Real Estate	\$146,637,490
Public Utility Personal	<u>8,221,870</u>
Total	<u><u>\$154,859,360</u></u>

Note 5 – Receivables

Receivables at June 30, 2016, consisted of taxes, interest, intergovernmental grants and interfund. 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.

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Blanchester Local School District, Ohio
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

Note 6 - Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$474,430	\$0	\$0	\$474,430
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	32,525,500	553,558	0	33,079,058
Equipment	<u>7,995,927</u>	<u>93,375</u>	<u>179,677</u>	<u>7,909,625</u>
Totals at Historical Cost	<u><u>40,995,857</u></u>	<u><u>646,933</u></u>	<u><u>179,677</u></u>	<u><u>41,463,113</u></u>
Less Accumulated Depreciation:				
Buildings and Improvements	13,788,210	842,125	0	14,630,335
Equipment	<u>6,644,136</u>	<u>179,126</u>	<u>156,322</u>	<u>6,666,940</u>
Total Accumulated Depreciation	<u><u>20,432,346</u></u>	<u><u>1,021,251</u></u>	<u><u>156,322</u></u>	<u><u>21,297,275</u></u>
Governmental Activities Capital Assets, Net	<u><u>\$20,563,511</u></u>	<u><u>(\$374,318)</u></u>	<u><u>\$23,355</u></u>	<u><u>\$20,165,838</u></u>

Depreciation expense was charged to governmental functions as follows:

Regular	\$742,354
Special	72,429
Support Services:	
Pupil	549
School Administration	70,801
Operations and Maintenance	62,444
Pupil Transportation	27,774
Extracurricular Activities	9,009
Non-Instructional Services	35,891
Total Depreciation Expense	<u><u>\$1,021,251</u></u>

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Blanchester Local School District, Ohio
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

Note 7 - Long-Term Liabilities

	Interest Rate	Maturity Dates	Beginning Balance	Issued	Retired	Ending Balance	Due In One Year
Governmental Activities:							
General Obligation Bonds:							
2006 Refunding Bonds:							
Current Interest Bonds	4.00%-4.25%	12/1/22	\$2,055,000	\$0	\$2,055,000	\$0	\$0
Current Appreciation Bonds							
Principal Only		12/1/15	45,000	0	45,000	0	0
Current Appreciation Bonds							
Compounding Interest	20.12%-22.01%	12/1/15	200,217	24,783	225,000	0	0
Premium on Refunding Bonds			110,882	0	110,882	0	0
2013 Certificate of Participation			1,795,000	0	150,000	1,645,000	150,000
2013 Capital Appreciation Bonds			34,999	0	0	34,999	0
2013 Capital Appreciation Bonds - Compounding Interest							
			25,668	14,060	0	39,728	0
Premium on 2013 Certificate of Participation			70,738	0	5,895	64,843	0
2016 Refunding Bonds			0	2,055,000	0	2,055,000	300,000
Premium on 2016 Refunding Bonds			0	79,086	0	79,086	
Total Bonds			4,337,504	2,172,929	2,591,777	3,918,656	450,000
Net Pension Liability							
STRS			13,152,902	2,602,647	753,913	15,001,636	0
SERS			3,851,074	768,185	408,393	4,210,866	0
Total Net Pension Liability			17,003,976	3,370,832	1,162,306	19,212,502	0
Compensated Absences			212,378	87,545	81,306	218,617	20,684
Total Governmental Activities			\$21,553,858	\$5,631,306	\$3,835,389	\$23,349,775	\$470,684

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from the fund from which the person is paid.

Principal and interest requirements to retire debt outstanding at year end are as follows:

Fiscal Year Ending June 30	General Obligation Bonds		Capital Appreciation Bonds	
	Principal	Interest	Principal	Interest
2017	\$450,000	\$109,461	\$0	\$0
2018	445,000	84,222	0	0
2019	475,000	72,322	0	0
2020	175,000	63,347	34,999	120,001
2021	495,000	53,917	0	0
2022-2026	1,475,000	105,841	0	0
2027	185,000	2,775	0	0
Total	\$3,700,000	\$491,885	\$34,999	\$120,001

Blanchester Local School District, Ohio
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

Note 8 – Current Bond Refunding

During 2016, the District issued \$2,055,000 in Unlimited Tax General Obligation Bonds with an average interest rate of 3.00% of which was used to refund \$2,055,000 of outstanding 2007 Refunding Bonds with variable interest rates. The net proceeds of \$2,097,619 (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide all future debt service payments on the bond issue.

The District refunded their 2007 Refunding Bonds to reduce its total debt service payments by \$120,805 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$111,719.

Note 9 - Defined Benefit Pension Plans

Net Pension Liability

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

Plan Description – District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues

Blanchester Local School District, Ohio
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For The Fiscal Year Ended June 30, 2016

a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service, 2.5 percent for years of service credit over 30 or \$86.00 multiplied by the years of service credit. Final average salary is the average of the highest three years of salary.

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District’s contractually required contribution to SERS was \$323,491 for fiscal year 2016. Of this amount \$50,362 is reported as accrued wages and benefits.

Plan Description - State Teachers Retirement System (STRS)

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

Blanchester Local School District, Ohio
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For The Fiscal Year Ended June 30, 2016

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

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

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

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

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

Blanchester Local School District, Ohio
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$828,444 for fiscal year 2016. Of this amount \$145,440 is reported as accrued wages and benefits.

Net Pension Liability

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$4,210,866	\$15,001,636	\$19,212,502
Proportion of the Net Pension Liability	0.07379590%	0.05428084%	
Pension Expense	276,238	683,753	959,991

At June 30, 2016, the 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	\$68,793	\$683,402	\$752,195
Net difference between projected and actual earnings on pension plan investments	315,103	753,050	1,068,153
Changes in employer proportion and differences between contributions and proportionate share of contributions	79,244	(5,626)	73,618
District contributions subsequent to the measurement date	<u>323,491</u>	<u>828,444</u>	<u>1,151,935</u>
Total Deferred Outflows of Resources	<u>\$786,631</u>	<u>\$2,259,270</u>	<u>\$3,045,901</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$473,499	\$1,822,687	\$2,296,186
Changes in employer proportion and differences between contributions and proportionate share of contributions	0	9,264	9,264
Changes in employer proportionate share of net pension liability	<u>101,701</u>	<u>(56,352)</u>	<u>45,349</u>
Total Deferred Inflows of Resources	<u>\$575,200</u>	<u>\$1,775,599</u>	<u>\$2,350,799</u>

Blanchester Local School District, Ohio
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

\$1,151,935 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	(\$52,202)	(\$232,569)	(\$284,771)
2018	(52,202)	(232,569)	(284,771)
2019	(52,397)	(232,566)	(284,963)
2020	<u>44,741</u>	<u>352,931</u>	<u>397,672</u>
Total	<u>(\$112,060)</u>	<u>(\$344,773)</u>	<u>(\$456,833)</u>

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, 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 investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

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

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

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

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

Sensitivity of the 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.

Blanchester Local School District, Ohio
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	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$5,838,957	\$4,210,866	\$2,839,878

Changes Between Measurement Date and Report Date

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

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$20,838,405	\$15,001,636	\$10,065,778

Note 10 - Post Employment Benefits

School Employees Retirement System

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

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For The Fiscal Year Ended June 30, 2016

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 the year ended June 30, 2016, the health care allocation is 0%. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the District's surcharge obligation was \$35,869.

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$60,537, and \$41,646, respectively. For fiscal year 2016, 100 percent has been contributed, with the balance being reported as accrued wages and benefits. The full amount has been contributed for fiscal years 2015 and 2014.

State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$59,307, respectively. The full amount has been contributed for fiscal years 2016, 2015, and 2014.

Blanchester Local School District, Ohio
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

Note 11 - Contingent Liabilities

Foundation Funding

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional 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 or June 30, 2016 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District as of June 30, 2016.

Litigation

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

Note 12 - Jointly Governed Organizations

The Miami Valley Educational Computer Association (MVECA) is a jointly governed organization consisting of 27 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports MVECA and shares in a percentage of equity based on the resources provided. MVECA is governed by a board of directors consisting of superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the board. To obtain financial information write to: Thor Sage, Director, 330 East Enon Road, Yellow Springs, Ohio 45387.

The Ohio region 14 state Support Team (Hopewell) is a jointly governed organization created by the Ohio Department of Education at the request of the participating school districts to offer direct and related services to low incidence handicapped students of the region. Seventeen local, city and exempted village school districts receive services from Hopewell. Hopewell is operated under regulations and policies established by the Ohio Department of Education, and its own governing board. The governing board is made up of superintendents from the seventeen school districts plus county

Blanchester Local School District, Ohio
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

board of education, mental retardation and developmental disabilities, and joint vocational school superintendents, as well as three parents of handicapped children in the region. The Southern Ohio Educational Service District acts as fiscal agent. Hopewell receives funding from contracts with each of the member school districts and from Federal and State grants. To obtain financial information write to: Rachel Meyer, Treasurer, Southern Ohio Educational Service District, 3321 Airborne Road, Wilmington, Ohio 45177.

Note 13 - Related Organization

Public Library - The Blanchester Public Library is a district political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Blanchester School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax-related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Blanchester Public Library, Mrs. Pamela Smith, Clerk/Treasurer, at 110 North Broadway, Blanchester, Ohio 45107.

Note 14 - Risk Management

The District is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries, and natural disasters. The District addresses these risks by maintaining a comprehensive risk management program through the purchase of various types of liability, inland marine, and property insurance from private carriers. Settled claims have not exceeded commercial coverage in any of the past four years.

The District provides health insurance to employees through a private carrier. They no longer provide benefits through a self insurance program.

Note 15 – Accountability

The following individual funds had a deficit in fund balance at year end:

	<u>Deficit</u>
Other Governmental Funds:	
Summer Intervention	\$5,124
Vocational Education Enhancement	1,876
Alternative Schools	27,777
Title V	9,564
Miscellaneous Federal Grants	5,633
Food Service	109,772

The deficit fund balance in these special revenue funds was primarily due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

Blanchester Local School District, Ohio
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

Note 16 - Set-Asides

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

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

	<u>Capital Acquisition</u>
Set Aside Reserve Balance as of June 30, 2015	\$0
Current Year Set Aside Requirements	292,625
Qualified Disbursements	(520,661)
Current Year Offsets	<u>(17,707,367)</u>
Set Aside Reserve Balance as of June 30, 2016	<u><u>(\$17,935,403)</u></u>

Restricted Cash as of June 30, 2016

Offset credits for capital activity during the year exceeded the amount required for the set-aside, resulting in offset credits of \$17,935,403 available for carryover to offset capital acquisition requirements of future years.

Note 17 - Interfund Transactions

Interfund transactions at June 30, 2016, consisted of the following interfund receivable and payable:

	Interfund	
	<u>Receivable</u>	<u>Payable</u>
General Fund	\$213,515	\$0
Other Governmental Funds	<u>2,089</u>	<u>215,604</u>
Total All Funds	<u><u>\$215,604</u></u>	<u><u>\$215,604</u></u>

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

Note 18 – Fund Balances

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

Blanchester Local School District, Ohio
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

Fund Balances	General	Debt Service	Other Governmental Funds	Total
Nonspendable:				
Prepays	\$34,279	\$0	\$3,795	\$38,074
Total Nonspendable	<u>34,279</u>	<u>0</u>	<u>3,795</u>	<u>38,074</u>
Restricted for:				
Local Grants	0	0	6,284	6,284
Classroom Facilities Maintenance	0	0	115,589	115,589
Student Activity	0	0	56,191	56,191
Data Communication	0	0	6,594	6,594
Miscellaneous State Grants	0	0	874	874
Special Education	0	0	10,933	10,933
Title I	0	0	63,608	63,608
Drug Free Schools	0	0	2,089	2,089
Improving Teacher Quality	0	0	35,592	35,592
Debt Service	0	332,600	0	332,600
Permanent Improvement	0	0	37,880	37,880
Total Restricted	<u>0</u>	<u>332,600</u>	<u>335,634</u>	<u>668,234</u>
Committed to:				
Permanent Improvements	11,000	0	0	11,000
Total Committed	<u>11,000</u>	<u>0</u>	<u>0</u>	<u>11,000</u>
Assigned to:				
Public School Support	38,274	0	0	38,274
Budgetary Variance	3,398,780	0	0	3,398,780
Encumbrances	405,487	0	0	405,487
Total Assigned	<u>3,842,541</u>	<u>0</u>	<u>0</u>	<u>3,842,541</u>
Unassigned (Deficit)	<u>11,408</u>	<u>0</u>	<u>(161,245)</u>	<u>(149,837)</u>
Total Fund Balance	<u><u>\$3,899,228</u></u>	<u><u>\$332,600</u></u>	<u><u>\$178,184</u></u>	<u><u>\$4,410,012</u></u>

Note 19 – Implementation of New Accounting Principles

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

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

Blanchester Local School District, Ohio
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2016

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

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

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

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REQUIRED SUPPLEMENTARY INFORMATION

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

	2015	2014	2013
District's Proportion of the Net Pension Liability	0.05428084%	0.05407496%	0.05407496%
District's Proportionate Share of the Net Pension Liability	\$15,001,636	\$13,152,902	\$15,625,458
District's Covered-Employee Payroll	\$5,692,550	\$6,386,862	\$5,211,117
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	263.53%	205.94%	299.85%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) - Information prior to 2013 is not available

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

	2015	2014	2013
District's Proportion of the Net Pension Liability	0.07379590%	0.07609400%	0.07609400%
District's Proportionate Share of the Net Pension Liability	\$4,210,866	\$3,851,074	\$4,526,420
District's Covered-Employee Payroll	\$3,009,476	\$2,779,913	\$2,026,619
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	139.92%	138.53%	223.35%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) - Information prior to 2013 is not available

Blanchester Local School District
 Required Supplementary Information
 Schedule of District Contributions
 State Teachers Retirement System of Ohio
 Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually Required Contribution	\$828,444	\$796,957	\$830,292	\$700,596	\$710,376	\$844,056	\$801,804	\$787,404	\$843,612	\$850,884
Contributions in Relation to the Contractually Required Contribution	<u>(828,444)</u>	<u>(796,957)</u>	<u>(830,292)</u>	<u>(700,596)</u>	<u>(710,376)</u>	<u>(844,056)</u>	<u>(801,804)</u>	<u>(787,404)</u>	<u>(843,612)</u>	<u>(850,884)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District Covered-Employee Payroll	\$5,917,457	\$5,692,550	\$6,386,862	\$5,211,117	\$5,291,239	\$5,501,323	\$5,576,054	\$5,350,809	\$5,335,759	\$5,327,615
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.44%	13.43%	15.34%	14.38%	14.72%	15.81%	15.97%

Blanchester Local School District
 Required Supplementary Information
 Schedule of District Contributions
 School Employees Retirement System of Ohio
 Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually Required Contribution	\$323,491	\$396,649	\$385,296	\$370,488	\$342,504	\$365,520	\$341,340	\$319,800	\$314,352	\$315,288
Contributions in Relation to the Contractually Required Contribution	<u>(323,491)</u>	<u>(396,649)</u>	<u>(385,296)</u>	<u>(370,488)</u>	<u>(342,504)</u>	<u>(365,520)</u>	<u>(341,340)</u>	<u>(319,800)</u>	<u>(314,352)</u>	<u>(315,288)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
District Covered-Employee Payroll	\$2,310,650	\$3,009,476	\$2,779,913	\$2,026,619	\$2,111,360	\$2,247,435	\$2,283,962	\$2,138,394	\$2,059,755	\$1,965,569
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	18.28%	16.22%	16.26%	14.95%	14.96%	15.26%	16.04%

Blanchester Local School District, Ohio
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2016

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$2,964,090	\$3,018,692	\$2,850,121	(\$168,571)
Tuition and Fees	1,567,346	1,596,219	1,507,082	(89,137)
Investment Earnings	44,175	44,988	42,476	(2,512)
Intergovernmental	11,458,510	11,669,589	11,017,932	(651,657)
Other Revenues	108,295	110,290	104,131	(6,159)
Total Revenues	16,142,416	16,439,778	15,521,742	(918,036)
Expenditures:				
Current:				
Instruction:				
Regular	7,666,146	6,406,680	6,100,476	306,204
Special	2,846,145	2,378,554	2,264,872	113,682
Vocational	430,603	359,859	342,660	17,199
Other	1,050,659	878,047	836,081	41,966
Support Services:				
Pupil	552,340	461,597	439,535	22,062
Instructional Staff	751,096	627,699	597,698	30,001
General Administration	30,038	25,103	23,903	1,200
School Administration	1,775,311	1,483,646	1,412,736	70,910
Fiscal	476,010	397,807	378,794	19,013
Business	12,240	10,229	9,740	489
Operations and Maintenance	1,836,782	1,535,018	1,461,653	73,365
Pupil Transportation	1,302,860	1,088,814	1,036,775	52,039
Central	155,142	129,654	123,457	6,197
Operation of Non-Instructional Services	18,936	15,825	15,069	756
Extracurricular Activities	365,771	305,679	291,069	14,610
Capital Outlay	492,687	411,744	392,065	19,679
Debt Service:				
Principal Retirement	188,497	157,529	150,000	7,529
Interest and Fiscal Charges	50,232	41,979	39,973	2,006
Total Expenditures	20,001,495	16,715,463	15,916,556	798,907
Excess of Revenues Over (Under) Expenditures	(3,859,079)	(275,685)	(394,814)	(119,129)
Other Financing Sources (Uses):				
Advances In	85,286	86,857	82,007	(4,850)
Advances (Out)	(160,344)	(134,002)	(127,597)	6,405
Total Other Financing Sources (Uses)	(75,058)	(47,145)	(45,590)	1,555
Net Change in Fund Balance	(3,934,137)	(322,830)	(440,404)	(117,574)
Fund Balance - Beginning of Year (includes prior year encumbrances appropriated)	4,911,973	4,911,973	4,911,973	0
Fund Balance - End of Year	\$977,836	\$4,589,143	\$4,471,569	(\$117,574)

See accompanying notes to the required supplementary information.

Blanchester Local School District, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June 30, 2016

Note 1 – Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriations resolution and the certificate of estimated resources which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District 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 issued during the fiscal year 2016.

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

Any budgetary modifications at the fund and function level may only be made by resolution of the Board of Education. The Treasurer is authorized to further allocate appropriations to the function and object level for all funds.

Tax Budget

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

Estimated Resources

Prior to April 1, the Board accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2016.

Blanchester Local School District, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June 30, 2016

Appropriations

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund and function level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control.

Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund does not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, several supplemental appropriations were legally enacted. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, other than agency funds, consistent with statutory provisions.

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriations and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as an assignment of fund balance for subsequent year expenditures for governmental funds.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

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

1. Revenues are recorded when received in cash (budget 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).

Blanchester Local School District, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June 30, 2016

3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as an assignment of fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.
5. Some funds are reported as part of the general fund (GAAP basis) as opposed to the general fund being reported alone (budget basis).

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

Net Change in Fund Balance	
	General
GAAP Basis	\$176,303
Revenue Accruals	(98,087)
Expenditure Accruals	(67,539)
Advances In	82,007
Advances (Out)	(127,597)
Encumbrances	(406,182)
Funds Budgeted Elsewhere	691
Budget Basis	(\$440,404)

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**BLANCHESTER LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed through Ohio Department of Education:</i>						
National School Lunch Program	3L60	10.555	\$ 315,580	\$ 50,572	\$ 315,581	\$ 50,572
National School Breakfast Program	3L70	10.553	93,920		93,920	
<i>Total Nutrition Cluster:</i>			409,500	50,572	409,501	50,572
Total U.S. Department of Agriculture			409,500	50,572	409,501	50,572
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through Ohio Department of Education:</i>						
Education Consolidation and Improvement Act						
Title 1 - FY 16	3M00	84.010	289,793	----	300,726	----
Title 1 - FY 15	3M00	84.010	48,878	----	66,547	----
			338,671	-	367,273	-
Special Education Cluster:						
Special Education Grants to States						
IDEA Part B - FY16	3M20	84.027	254,432	----	255,899	----
IDEA Part B - FY15	3M20	84.027	26,737		45,019	
			281,169		300,918	
Educational Handicapped Preschool						
Preschool Subsidy - FY16	3C50	84.173	5,442	----	5,442	----
			5,442		5,442	
<i>Total Special Education Cluster</i>			286,611	----	306,360	----
Additional Programs:						
Rural and Low Income, Title VI-B	3Y80	84.358	22,475	----	22,410	----
Improving Teacher Quality, Title IIA - FY16	3Y60	84.367	54,776	----	54,628	----
Improving Teacher Quality, Title IIA - FY15	3Y60	84.367	75,789	----	10,840	----
<i>Total Additional Programs</i>			153,040	----	87,878	----
<i>Passed through Great Oaks Institute of Technology and Career Development</i>						
Vocational Education Basic Grants to States						
Career Education - FY16	N/A	84.048	4,000	----	4,000	----
<i>Total Vocational Education</i>			4,000	----	4,000	----
Total U.S. Department of Education			782,322	----	765,511	----
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ 1,191,822	\$ 50,572	\$ 1,175,012	\$ 50,572

The accompanying notes to this schedule are an integral part of this schedule.

**BLANCHESTER LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A – BASIS OF PRESENTATION

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D – FOOD DONATION PROGRAM

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



Dave Yost • Auditor of State

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

Blanchester Local School District
Clinton County
951 Cherry Street
Blanchester, Ohio 45107

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 funds, and the aggregate remaining fund information of the Blanchester Local School District, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 28, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Corporate Centre of Blue Ash, 11117 Kenwood Road, Blue Ash, Ohio 45242
Phone: 513-361-8550 or 800-368-7419 Fax: 513-361-8577

www.ohioauditor.gov

District's Response to Findings

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

Purpose of this Report

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

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

Dave Yost
Auditor of State

Columbus, Ohio

March 28, 2017



Dave Yost • Auditor of State

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

Blanchester Local School District
Clinton County
951 Cherry Street
Blanchester, Ohio 45107

To the Board of Education:

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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



Dave Yost
Auditor of State

Columbus, Ohio

March 28, 2017

**BLANCHESTER LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING 2016-001

Ohio Rev. Code Section 5705.39 provides in part that total appropriations from each fund shall not exceed the total estimated resources as certified by the budget commission. The following fund had appropriations in excess of the estimated resources available for expenditure as certified by the budget commission:

Fund	Estimated Resources	Appropriations	Variance
Debt Service	\$833,456	\$2,374,487	(\$1,541,031)

Allowing appropriations to exceed amounts certified as available can result in overspending and deficit fund balances.

The District should routinely compare appropriations to the estimated resources available for expenditures as certified by the budget commission for each fund to ensure compliance with the requirements of the Ohio Revised Code.

Officials' Response:

The District will assure during the next bond refunding that all amounts will be budgeted appropriately.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

BLANCHESTER LOCAL SCHOOL DISTRICT
CLINTON COUNTY

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

Finding Number	Finding Summary	Status	Additional Information
2015-001	Nutrition Cluster expenditures not allowable and not approved by Food Service Director.	Partially Corrected	Re-issued in the management letter

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**BLANCHESTER LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

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

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	Future refunding of debt will be added in estimated resources.	Current	Darlene Kassner

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BLANCHESTER LOCAL SCHOOL DISTRICT

CLINTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 11, 2017**