



Dave Yost • Auditor of State

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Licking Valley Local School District
Licking County
1379 Licking Valley Road NE
Newark, Ohio 43055

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 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

January 4, 2017

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**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

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

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by approximately \$8.1 million (net position), an increase of \$588,083 during the fiscal year.
- General revenues accounted for approximately \$18.5 million, or 82% of all revenues. Program specific revenues in the form of operating grants and contributions and charges for services and sales accounted for approximately \$4.0 million or 18% of total revenues.
- The District's major funds included the General Fund and the Bond Retirement Fund. The General Fund had approximately \$19.6 million in revenues and other financing sources and approximately \$18.6 million in expenditures and other financing uses. The General Fund's fund balance increased \$993,738 in comparison with the prior fiscal year. The Bond Retirement Fund had approximately \$9.1 million in revenues and other financing sources and approximately \$9.1 million in expenditures and other financing uses. The Bond Retirement Fund's balance increased \$68,934 from the prior fiscal year.

Using the Basic Financial Statements

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

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

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

For the District, the General Fund is by far the most significant fund. The General Fund and the Bond Retirement Fund are the only major funds.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

Reporting the District as a Whole

Statement of Net Position and Statement of Activities

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

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

In the statement of net position and the statement of activities, the District discloses a single type of activity:

- **Governmental Activities** - All of the District's programs and services are reported here including instruction, support services, non-instructional services, operation of non-instructional services (food service), and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The General Fund and the Bond Retirement Fund are the District's most significant major governmental funds. A description of the financial activities of these major funds can be found in the notes to the basic financial statements.

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

Fiduciary Fund - The District's only fiduciary fund is for student managed activities reported in the Agency fund. The District's fiduciary activities are reported on the Statement of Fiduciary Net Position. We exclude these activities from the District's other financial statements because assets cannot be utilized by the District to finance operations.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

The District as a Whole

The following table provides a summary of the District's net position for fiscal year 2016 compared to fiscal year 2015.

**District Net Position
Governmental Activities**

| | 2016 | 2015 |
|--------------------------------------|---------------|---------------|
| Current and Other Assets | \$ 17,417,067 | \$ 16,025,620 |
| Capital Assets, Net | 35,988,620 | 37,281,588 |
| Total Assets | 53,405,687 | 53,307,208 |
| Pension | 2,816,334 | 1,818,196 |
| Total Deferred Outflows of Resources | 2,816,334 | 1,818,196 |
| Current Liabilities | 1,861,022 | 1,981,056 |
| Long-Term Liabilities | 39,433,398 | 36,547,583 |
| Total Liabilities | 41,294,420 | 38,528,639 |
| Deferred Property Taxes | 5,037,090 | 4,882,519 |
| Pension | 1,651,943 | 4,155,082 |
| Deferred Amount on Refunding | 91,321 | - |
| Total Deferred Inflows of Resources | 6,780,354 | 9,037,601 |
| Net Position: | | |
| Net Investment in Capital Assets | 25,068,793 | 26,005,980 |
| Restricted | 2,439,875 | 1,931,904 |
| Unrestricted | (19,361,421) | (20,378,720) |
| Total Net Position | \$ 8,147,247 | \$ 7,559,164 |

Capital Assets decreased significantly in comparison with the prior fiscal year-end. This decrease represents the amount by which current year depreciation exceeded capital additions.

Long-Term Liabilities increased significantly in comparison with the prior fiscal year-end. This increase primarily represents a significant increase in the District's net pension liability as a result of unfavorable pension investment returns.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

The following table reflects the changes in net position for fiscal year 2016 compared to fiscal year 2015.

| Change in Net Position Governmental Activities | | |
|---|--------------|--------------|
| | 2016 | 2015 |
| Revenues: | | |
| Program Revenues | | |
| Charges for Services and Sales | \$ 2,388,998 | \$ 2,335,537 |
| Operating Grants and Contributions | 1,567,405 | 1,715,174 |
| Total Program Revenues | 3,956,403 | 4,050,711 |
| General Revenues | | |
| Property Taxes | 5,290,913 | 5,171,752 |
| Income Taxes | 2,351,402 | 2,286,611 |
| Grants and Entitlements | 10,711,637 | 10,586,108 |
| Interest | 27,224 | 14,723 |
| Other Revenue | 152,339 | 461,382 |
| Total General Revenue | 18,533,515 | 18,520,576 |
| Total Revenues | 22,489,918 | 22,571,287 |
| Expenses: | | |
| Program Expenses | | |
| Instruction | 12,148,966 | 11,764,723 |
| Support Services | 7,423,579 | 7,192,585 |
| Non-Instructional | 1,012,627 | 1,006,857 |
| Extra Curricular Activities | 741,525 | 738,782 |
| Interest and Fiscal Charges | 575,138 | 473,212 |
| Total Expenses | 21,901,835 | 21,176,159 |
| Changes in Net Position | 588,083 | 1,395,128 |
| Net Position at Beginning of Year | 7,559,164 | 6,164,036 |
| Net Position at End of Year | \$ 8,147,247 | \$ 7,559,164 |

Revenues and expenses were both consistent with amounts reported in fiscal year 2015.

The District is dependent on property and income taxes and is hampered by a lack of revenue growth. The District must periodically return to the voters to maintain a constant level of service. Property and income taxes made up approximately 24 and 10 percent of the District's revenues in fiscal year 2016, respectively.

Instruction expenses comprise approximately 55 percent of governmental program expenses, and support services make up approximately 34 percent of the program expenses of the District.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

The Statement of Activities shows the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements. A comparative analysis of fiscal year 2016 to 2015 follows:

| | <u>Fiscal Year 2016</u> | | <u>Fiscal Year 2015</u> | |
|-----------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | <u>Total Cost of Services</u> | <u>Net Cost of Services</u> | <u>Total Cost of Services</u> | <u>Net Cost of Services</u> |
| Program Expenses | | | | |
| Instruction | \$ 12,148,966 | \$ 9,818,359 | \$ 11,764,723 | \$ 9,413,760 |
| Support Services: | | | | |
| Pupil | 592,082 | 588,689 | 527,116 | 492,860 |
| Instructional Staff | 455,117 | 455,117 | 454,289 | 454,289 |
| Board of Education | 34,375 | 34,375 | 4,092 | 4,092 |
| Administration | 2,232,317 | 1,979,759 | 2,128,086 | 1,879,090 |
| Fiscal Services | 491,054 | 491,054 | 462,079 | 462,079 |
| Business Operations | 73,687 | 73,687 | 69,587 | 69,587 |
| Maintenance | 1,970,500 | 1,924,878 | 1,982,947 | 1,924,186 |
| Pupil Transportation | 1,281,622 | 1,281,622 | 1,316,611 | 1,316,611 |
| Central | 292,825 | 292,825 | 247,778 | 247,778 |
| Noninstructional Services | 1,012,627 | 7,794 | 1,006,857 | (28,478) |
| Extracurricular Activities | 741,525 | 422,135 | 738,782 | 416,382 |
| Interest and Fiscal Charges | 575,138 | 575,138 | 473,212 | 473,212 |
| Total Expenses | <u>\$ 21,901,835</u> | <u>\$ 17,945,432</u> | <u>\$ 21,176,159</u> | <u>\$ 17,125,448</u> |

The dependence upon tax revenues and unrestricted state entitlements is apparent. Program revenues offset only 19 percent of instruction activities. For all program expenses, support from general revenues is 82 percent. It is apparent that the community, as a whole, is the primary support for the District's students.

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**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the fiscal year, the District's governmental funds reported combined ending fund balances of approximately \$10.1 million, an increase of approximately \$1.4 million in comparison with the prior fiscal year. Of this amount, approximately \$6.6 million constitutes unassigned fund balance, which is available for spending at the District's discretion. The remainder of fund balance not available for new spending because it is; (1) not in spendable form (\$119,444); (2) restricted for specific purposes (approximately \$2.4 million); or (3) assigned to specific purposes (\$944,411).

The schedule below indicates the fund balance and the total change in fund balance by major fund and other governmental funds as of June 30, 2016 and 2015.

| | Fund Balance <u>June 30, 2016</u> | Fund Balance <u>June 30, 2015</u> | Increase (Decrease) |
|--------------------------|--------------------------------------|--------------------------------------|------------------------|
| General Fund | \$ 7,688,828 | \$ 6,695,090 | \$ 993,738 |
| Bond Retirement Fund | 928,930 | 859,996 | 68,934 |
| Other Governmental Funds | 1,473,973 | 1,107,619 | 366,354 |
| Total | <u>\$ 10,091,731</u> | <u>\$ 8,662,705</u> | <u>\$ 1,429,026</u> |

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was approximately \$6.6 million, while total fund balance was approximately \$7.7 million. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Unassigned fund balance represents 36% of total general fund expenditures and total fund balance represents 42% of that same amount.

The District's Bond Retirement Fund balance increased by \$68,934 during the current fiscal year. This increase represents the amount in which property taxes, related revenues, and proceeds from the refunding bonds exceeded debt service payments and payments to the refunding bond escrow during the fiscal year.

Fund balance in the District's Other Governmental Funds increased \$366,354 in comparison with the prior fiscal year-end. A significant portion of this increase is a \$350,618 increase in the permanent improvement fund, which primarily consists of a \$300,000 transfer in from the general fund.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

Budgetary 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 as needed.

Final estimated receipts and other financing sources were approximately \$18.9 million, while final actual receipts and other financing sources were also approximately \$18.9 million, for a variance of \$15,196.

Final expenditures were budgeted at approximately \$18.8 million while final actual expenditures were approximately \$18.4 million, for a variance of \$361,554. This variance is primarily due to a conservative "worst case scenario" approach to budgeting. The District over-appropriates in case significant, unexpected expenditures arise during the fiscal year.

Capital Assets and Debt Administration

Capital Assets

At fiscal year-end, the District's capital assets (net of accumulated depreciation) were approximately \$35.4 million, a decrease of approximately \$1.3 million in comparison with the prior fiscal year. This decrease represents the amount by which current year depreciation (approximately \$1.9 million) exceeded current year additions (\$631,304). For further information regarding the District's capital assets, see Note 8 to the basic financial statements.

Debt

At June 30, 2016, the District had approximately \$10.9 million in general obligation bonds and other related debt outstanding, a decrease of \$897,054 during the fiscal year. This decrease represents the amount of current year debt service (approximately \$9.0 million) and amortization of bond premiums (\$113,125) exceeded new issues (approximately \$8.1 million) and accretion on the District's capital appreciation bonds (\$84,611).

Section 133.06 of the Revised Code provides that, exclusive of certain "exempt debt," the net principal amount of unvoted general obligation debt of a District may not exceed one-tenth (0.10%) of one percent of the total assessed property value listed within the District. Section 133.06 also provides that the net principal amount of voted and unvoted general obligation debt of any District may not exceed nine (9.0%) of the total assessed value, except as in the case of a special needs school district. As the District is in excess of the 9.0% margin, the District requested and obtained consent to become a "special needs" District, thereby permitting the incurrence of additional debt based upon projected 10 year growth of the District's assessed valuation, as permitted by the code.

For further information regarding the District's debt, see Note 13 to the basic financial statements.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

Economic Factors

The District is holding its own in the state of uncertainty in State funding. Over the past several years, the District has remained in a good financial position. In 1988, the District passed a 7.5 mil-continuing levy. This levy provides a continuous source of funds for the financial operations and stability of the District.

The District also passed a 1.0% Continuous Income Tax levy for operating in 1993 and returned 5 mills of the 1988 levy back to the taxpayers. This generates approximately \$2.3 million additional revenue to be used for operational expenses of the District. The District has operated for 21 years without asking the taxpayers for more operational dollars.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Jo Lynn Torbert, Treasurer, Licking Valley Local School District, 1379 Licking Valley Road NE, Newark, Ohio 43055.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

STATEMENT OF NET POSITION
AS OF JUNE 30, 2016

| | Governmental Activities |
|---|----------------------------|
| Assets: | |
| Cash and Cash Equivalents | \$ 10,563,328 |
| Property Taxes Receivable | 5,579,104 |
| Income Taxes Receivable | 958,615 |
| Intergovernmental Receivable | 184,273 |
| Materials and Supplies Inventory | 11,278 |
| Prepaid Items | 119,444 |
| Restricted Cash and Cash Equivalents | 1,025 |
| Non-Depreciable Capital Assets | 593,300 |
| Depreciable Capital Assets, Net | 35,395,320 |
| Total Assets | 53,405,687 |
| Deferred Outflows of Resources | |
| Pension | 2,816,334 |
| Total Deferred Outflows of Resources | 2,816,334 |
| Liabilities: | |
| Accounts Payable | 100,437 |
| Accrued Wages and Benefits | 1,491,443 |
| Intergovernmental Payable | 247,412 |
| Accrued Interest Payable | 21,730 |
| Long-Term Liabilities: | |
| Due within One Year | 1,449,355 |
| Due in More Than One Year: | |
| Net Pension Liability | 26,563,947 |
| Other Amounts Due in More Than One Year | 11,420,096 |
| Total Liabilities | 41,294,420 |
| Deferred Inflows of Resources: | |
| Property Taxes | 5,037,090 |
| Pension | 1,651,943 |
| Deferred Amount on Refunding | 91,321 |
| Total Deferred Inflows of Resources | 6,780,354 |
| Net Position: | |
| Net Investment in Capital Assets | 25,068,793 |
| Restricted for: | |
| Debt Service | 954,196 |
| Permanent Improvement | 1,125,795 |
| Food Services | 270,441 |
| Classroom Facilities Maintenance | 1,796 |
| Extracurricular Activities | 77,174 |
| Other Purposes | 10,473 |
| Unrestricted | (19,361,421) |
| Total Net Position | \$ 8,147,247 |

See accompanying notes to the basic financial statements.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

| | | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|--------------------------------------|----------------------|-------------------------|---------------------------------------|--|
| | Expenses | Charges for Services | Operating Grants and Contributions | Governmental Activities |
| Governmental Activities | | | | |
| Instruction | | | | |
| Regular | \$ 9,034,937 | \$ 1,075,103 | \$ 78,298 | \$ (7,881,536) |
| Special | 2,198,406 | 306,932 | 686,730 | (1,204,744) |
| Vocational | 449,558 | 61,577 | 55,512 | (332,469) |
| Other | 466,065 | 66,455 | - | (399,610) |
| Support Services | | | | |
| Pupils | 592,082 | - | 3,393 | (588,689) |
| Instructional Staff | 455,117 | - | - | (455,117) |
| Board of Education | 34,375 | - | - | (34,375) |
| Administration | 2,232,317 | 181,872 | 70,686 | (1,979,759) |
| Fiscal | 491,054 | - | - | (491,054) |
| Business | 73,687 | - | - | (73,687) |
| Operation and Maintenance of Plant | 1,970,500 | - | 45,622 | (1,924,878) |
| Pupil Transportation | 1,281,622 | - | - | (1,281,622) |
| Central | 292,825 | - | - | (292,825) |
| Non-instructional Services | 1,012,627 | 391,467 | 613,366 | (7,794) |
| Extra Curricular Activities | 741,525 | 305,592 | 13,798 | (422,135) |
| Interest and Fiscal Charges | 575,138 | - | - | (575,138) |
| Total Governmental Activities | \$ 21,901,835 | \$ 2,388,998 | \$ 1,567,405 | \$ (17,945,432) |
| General Revenues: | | | | |
| Property Taxes Levied for: | | | | |
| General Purposes | | | | \$ 4,198,923 |
| Debt Service | | | | 893,085 |
| Permanent Improvements | | | | 198,905 |
| School District Income Tax | | | | 2,351,402 |
| Unrestricted Grants and Entitlements | | | | 10,711,637 |
| Investment Earnings | | | | 27,224 |
| Other General Revenues | | | | 152,339 |
| Total General Revenues | | | | 18,533,515 |
| Change in Net Position | | | | 588,083 |
| Net Position Beginning of Year | | | | 7,559,164 |
| Net Position End of Year | | | | \$ 8,147,247 |

See accompanying notes to the basic financial statements.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2016

| | General Fund | Bond Retirement Fund | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|----------------------------|--------------------------------|--------------------------------|
| Assets: | | | | |
| Current Assets: | | | | |
| Cash and Cash Equivalents | \$ 8,196,664 | \$ 883,660 | \$ 1,483,004 | \$ 10,563,328 |
| Property Taxes Receivable | 4,461,427 | 906,996 | 210,681 | 5,579,104 |
| Income Taxes Receivable | 958,615 | - | - | 958,615 |
| Intergovernmental Receivable | 85,020 | - | 99,253 | 184,273 |
| Material and Supplies Inventory | - | - | 11,278 | 11,278 |
| Prepaid Items | 116,919 | - | 2,525 | 119,444 |
| Restricted Cash and Cash Equivalents | 1,025 | - | - | 1,025 |
| Total Assets | \$ 13,819,670 | \$ 1,790,656 | \$ 1,806,741 | \$ 17,417,067 |
| Liabilities: | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | \$ 98,640 | \$ - | \$ 1,797 | \$ 100,437 |
| Accrued Wages and Benefits | 1,373,788 | - | 117,655 | 1,491,443 |
| Intergovernmental Payable | 235,987 | - | 11,425 | 247,412 |
| Compensated Absences Payable | 19,500 | - | 1,500 | 21,000 |
| Total Liabilities | 1,727,915 | - | 132,377 | 1,860,292 |
| Deferred Inflows of Resources: | | | | |
| Property Taxes | 4,032,650 | 814,730 | 189,710 | 5,037,090 |
| Unavailable Revenue | 370,277 | 46,996 | 10,681 | 427,954 |
| Total Deferred Inflows of Resources | 4,402,927 | 861,726 | 200,391 | 5,465,044 |
| Fund Balances: | | | | |
| Nonspendable: | | | | |
| Prepaid Items | 116,919 | - | 2,525 | 119,444 |
| Restricted for: | | | | |
| Debt Service | - | 928,930 | - | 928,930 |
| Permanent Improvement | - | - | 1,115,114 | 1,115,114 |
| Food Services | - | - | 268,456 | 268,456 |
| Classroom Facilities Maintenance | - | - | 1,256 | 1,256 |
| Extracurricular Activities | - | - | 77,174 | 77,174 |
| Other Purposes | 1,025 | - | 9,448 | 10,473 |
| Assigned to: | | | | |
| Public School Support | 46,539 | - | - | 46,539 |
| Instruction Services | 161,015 | - | - | 161,015 |
| Support Services | 101,481 | - | - | 101,481 |
| Future Appropriations | 635,376 | - | - | 635,376 |
| Unassigned: | 6,626,473 | - | - | 6,626,473 |
| Total Fund Balances | 7,688,828 | 928,930 | 1,473,973 | 10,091,731 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances: | \$ 13,819,670 | \$ 1,790,656 | \$ 1,806,741 | \$ 17,417,067 |

See accompanying notes to the basic financial statements.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

| | |
|--|--------------------------------|
| Total Governmental Fund Balances | \$ 10,091,731 |
| <i>Amounts reported for governmental activities in the statement of net position are different because:</i> | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 35,988,620 |
| Other long-term assets are not available to pay for current period expenditures and therefore are deferred inflows of resources in the funds. | |
| Property Taxes Receivable | 279,104 |
| Income Taxes Receivable | 148,850 |
| Long-Term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | |
| General Obligation Bonds Payable | (8,420,000) |
| Lease-Purchase Agreement | (1,466,036) |
| Bond Premium | (322,953) |
| Deep Discount Debt Accretion | (711,784) |
| Deferred Amount on Refunding | (91,321) |
| Accrued Interest Payable | (21,730) |
| Compensated Absence Payable | (1,161,328) |
| Capital Leases Payable | (766,350) |
| The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds: | |
| Deferred Outflows - Pension | 2,816,334 |
| Deferred Inflows - Pension | (1,651,943) |
| Net Pension Liability | <u>(26,563,947)</u> |
| Net Position of Governmental Activities | <u>\$ 8,147,247</u> |

See accompanying notes to the basic financial statements.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

| | General Fund | Bond Retirement Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|----------------------------|--------------------------------|--------------------------------|
| Revenues: | | | | |
| Property and Other Local Taxes | \$ 4,266,150 | \$ 912,807 | \$ 202,419 | \$ 5,381,376 |
| Income Taxes | 2,341,167 | - | - | 2,341,167 |
| Intergovernmental | 10,661,515 | 138,700 | 1,469,409 | 12,269,624 |
| Interest | 23,921 | - | 3,303 | 27,224 |
| Tuition and Fees | 1,425,304 | - | - | 1,425,304 |
| Extracurricular Activities | 39,433 | - | 305,592 | 345,025 |
| Customer Sales and Services | 83,482 | - | 391,467 | 474,949 |
| Donations and Contributions | 39,238 | - | 20,834 | 60,072 |
| All Other Revenue | 222,727 | - | 1,341 | 224,068 |
| Total Revenues | 19,102,937 | 1,051,507 | 2,394,365 | 22,548,809 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 7,530,544 | - | 47,692 | 7,578,236 |
| Special | 1,567,104 | - | 647,834 | 2,214,938 |
| Vocational | 431,855 | - | - | 431,855 |
| Other | 466,065 | - | - | 466,065 |
| Support services: | | | | |
| Pupils | 587,575 | - | 3,400 | 590,975 |
| Instructional Staff | 450,965 | - | - | 450,965 |
| Board of Education | 34,375 | - | - | 34,375 |
| Administration | 2,100,079 | - | 70,818 | 2,170,897 |
| Fiscal | 492,826 | - | - | 492,826 |
| Business | 51,263 | - | - | 51,263 |
| Operation and Maintenance of Plant | 1,856,124 | - | 115,048 | 1,971,172 |
| Pupil Transportation | 1,119,290 | - | - | 1,119,290 |
| Central | 258,791 | - | - | 258,791 |
| Non-instructional Services | 273 | - | 994,793 | 995,066 |
| Extracurricular Activities | 297,877 | - | 314,448 | 612,325 |
| Capital Outlay | 502,284 | - | 33,972 | 536,256 |
| Debt service: | | | | |
| Principal | 412,183 | 840,000 | 133,491 | 1,385,674 |
| Interest and Fiscal Charges | 35,035 | 303,997 | 55,044 | 394,076 |
| Bond Issuance Costs | - | 128,527 | - | 128,527 |
| Total Expenditures | 18,194,508 | 1,272,524 | 2,416,540 | 21,883,572 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 908,429 | (221,017) | (22,175) | 665,237 |
| Other financing sources (uses): | | | | |
| Sale of Capital Assets | 11,300 | - | - | 11,300 |
| Inception of Capital Lease | 452,441 | - | - | 452,441 |
| Insurance Proceeds | 10,097 | - | - | 10,097 |
| Proceeds from Refunding Bonds | - | 7,755,000 | - | 7,755,000 |
| Premium on Refunding Bonds | - | 339,951 | - | 339,951 |
| Payments to Refunding Bonds Escrow | - | (7,805,000) | - | (7,805,000) |
| Transfers In | - | - | 388,529 | 388,529 |
| Transfers Out | (388,529) | - | - | (388,529) |
| Total other financing sources (uses) | 85,309 | 289,951 | 388,529 | 763,789 |
| Net Change in Fund Balances | 993,738 | 68,934 | 366,354 | 1,429,026 |
| Fund Balance Beginning of Year | 6,695,090 | 859,996 | 1,107,619 | 8,662,705 |
| Fund Balance End of Year | \$ 7,688,828 | \$ 928,930 | \$ 1,473,973 | \$ 10,091,731 |

See accompanying notes to the basic financial statements.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

Net Change in Fund Balances - Total Governmental Funds \$ 1,429,026

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

| | |
|----------------|-------------|
| Capital Outlay | 631,304 |
| Depreciation | (1,924,272) |

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

| | |
|------------------|----------|
| Property Taxes | (90,463) |
| Income Taxes | 10,235 |
| Tuition and Fees | (60) |

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

1,461,784

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

(1,488,843)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, leases and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

| | |
|--|-------------|
| Principal Repayments | 1,385,674 |
| Bond Proceeds | (7,755,000) |
| Premium on Refunding Bonds | (339,951) |
| Payments to Refunding Bond Escrow Agent | 7,805,000 |
| Amortization of Deferred Amount on Refunding | 4,806 |
| Amortization of Bond Premium | 16,998 |
| Accretion of Capital Appreciation Bonds | (84,611) |
| Inception of Capital Lease | (452,441) |

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 the funds.

| | |
|----------------------|----------|
| Compensated Absences | (31,375) |
| Accrued Interest | 10,272 |

Change in Net Position of Governmental Activities \$ 588,083

See accompanying notes to the basic financial statements.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

| | Original Budget | Final Budget | Actual | Variance Over/(Under) |
|---|---------------------|---------------------|---------------------|--------------------------|
| Revenues: | | | | |
| Property and Other Local Taxes | \$ 4,115,520 | \$ 4,230,000 | \$ 4,228,310 | \$ (1,690) |
| Income Taxes | 2,314,000 | 2,314,000 | 2,312,259 | (1,741) |
| Intergovernmental | 10,730,912 | 10,661,300 | 10,657,481 | (3,819) |
| Interest | 24,300 | 24,300 | 23,921 | (379) |
| Tuition and Fees | 1,443,600 | 1,443,600 | 1,441,712 | (1,888) |
| Customer Sales and Services | 83,482 | 83,482 | 83,482 | - |
| Donations and Contributions | 36,200 | 36,200 | 36,171 | (29) |
| Miscellaneous | 103,387 | 103,387 | 98,140 | (5,247) |
| Total Revenues | 18,851,401 | 18,896,269 | 18,881,476 | (14,793) |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 7,991,922 | 7,871,179 | 7,742,983 | 128,196 |
| Special | 1,505,315 | 1,599,392 | 1,575,272 | 24,120 |
| Vocational | 435,685 | 437,107 | 433,183 | 3,924 |
| Other | 661,400 | 467,195 | 466,065 | 1,130 |
| Support Services: | | | | |
| Pupils | 540,500 | 588,576 | 586,002 | 2,574 |
| Instructional Staff | 473,000 | 468,983 | 459,136 | 9,847 |
| Board of Education | 27,500 | 34,810 | 34,391 | 419 |
| Administration | 1,975,000 | 1,949,214 | 1,940,900 | 8,314 |
| Fiscal | 503,506 | 522,382 | 505,264 | 17,118 |
| Business | 85,000 | 48,750 | 48,489 | 261 |
| Operation and Maintenance of Plant | 2,115,462 | 2,211,067 | 2,061,336 | 149,731 |
| Pupil Transportation | 1,402,925 | 1,334,033 | 1,325,409 | 8,624 |
| Central | 311,000 | 301,764 | 300,481 | 1,283 |
| Non-instructional Services | 250 | 336 | 273 | 63 |
| Extracurricular Activities | 279,950 | 307,330 | 301,711 | 5,619 |
| Capital Outlay | 225,000 | 50,174 | 49,843 | 331 |
| Debt Service: | | | | |
| Principal | 185,000 | 185,000 | 185,000 | - |
| Interest and Fiscal Charges | 11,816 | 11,809 | 11,809 | - |
| Total Expenditures | 18,730,231 | 18,389,101 | 18,027,547 | 361,554 |
| Excess of Revenues Over (Under) Expenditures | 121,170 | 507,168 | 853,929 | 346,761 |
| Other Financing Sources (Uses): | | | | |
| Sale of Capital Assets | 11,300 | 11,300 | 11,300 | - |
| Insurance Proceeds | 10,500 | 10,500 | 10,097 | (403) |
| Transfers Out | (388,529) | (388,529) | (388,529) | - |
| Total Other Financing Sources (Uses) | (366,729) | (366,729) | (367,132) | (403) |
| Net Change in Fund Balance | (245,559) | 140,439 | 486,797 | 346,358 |
| Fund Balances at Beginning of Year | 7,024,616 | 7,024,616 | 7,024,616 | - |
| Prior Year Encumbrances Appropriated | 269,815 | 269,815 | 269,815 | - |
| Fund Balances at End of Year | \$ 7,048,872 | \$ 7,434,870 | \$ 7,781,228 | \$ 346,358 |

See accompanying notes to the basic financial statements.

LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS
AS OF JUNE 30, 2016

| | <u>Agency Funds</u> |
|---------------------------|-------------------------|
| Assets | |
| Cash and Cash Equivalents | \$ 48,812 |
| Total Assets | <u>48,812</u> |
| Liabilities | |
| Undistributed Monies | 48,544 |
| Accounts Payable | 268 |
| Total Liabilities | <u>\$ 48,812</u> |

See accompanying notes to the basic financial statements.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

1. DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

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

The District was established in 1957 through the consolidation of existing land areas and school districts. The District serves an area of approximately 138 square miles. It is located in Licking County, and includes the Village of Hanover and portions of Mary Ann, Perry, Madison and Hanover Townships. It is staffed by 108 non-certificated employees and 137 certificated full-time teaching personnel who provide services to 2,035 students and other community members. The District currently operates 3 instructional buildings.

Reporting Entity:

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units.

The District is associated with five organizations, which are defined as jointly governed organizations and an insurance purchasing pool. These organizations include the Career and Technology Education Centers of Licking County, the Central Ohio Special Education Regional Resource Center, the Metropolitan Educational Technology Association, the Coalition for Equity & Adequacy of School Funding, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. 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 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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The General Fund and Bond Retirement Fund are the District's major governmental funds:

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Bond Retirement Fund - The Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

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

Fiduciary Funds

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

C. Measurement Focus

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

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 deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide and governmental fund statements.

D. Basis of Accounting

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

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the District, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 10.

In addition to liabilities, the statement of financial position will sometimes 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 so will not be recognized until that time. For the District, deferred inflows of resources include property taxes, pension, deferred amount on refunding and unavailable revenue.

Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental funds balance sheet.

A deferred amount on refunding is reported on the government-wide statement of net position. A deferred amount on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the availability period. For the District, unavailable revenue includes delinquent property taxes and intergovernmental revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 10).

Expenditures/Expenses

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 on 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.

E. Budgetary Process

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

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

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

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Investments

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "Cash and Cash Equivalents" on the financial statements.

During fiscal year 2016, the District invested in STAR Ohio (the State Treasury Asset Reserve of Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

As authorized by Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund and Other Governmental Funds during the fiscal year amounted to \$23,921 and \$3,303, respectively.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond fiscal year-end, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed. At fiscal year-end, because prepaid items are not available to finance future governmental fund expenditures, a portion of fund balance equal to the carrying value of the asset has been reported as nonspendable.

H. Inventory

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

On the fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure when consumed. Inventories of governmental funds consist of expendable supplies held for consumption and donated and purchased food held for resale.

I. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributor's grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amounts required by state statute to be set-aside to create a reserve for unspent bus allowance funds from the state.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values as of the date received. The District's capitalization threshold is five thousand dollars. 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 capitalized.

All reported capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|-------------------------------------|----------------------------|
| Land Improvements | 15 - 30 years |
| Buildings and Building Improvements | 15 - 30 years |
| Furniture and Fixtures | 5 - 20 years |
| Vehicles | 5 - 15 years |
| Equipment | 10 years |

K. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net position, except for any net residual amounts due between governmental activities, which are presented as internal balances. The District had no interfund balances at fiscal year-end.

L. Compensated Absences

Vacation benefits and personal leave 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 benefits through paid time off or some other means. The District records a liability for accumulated unused vacation and personal leave time when earned for all employees.

Compensated absence leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on the accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for all employees after twenty years of service, all employees with 15 years of service and are at least 45 years old, and all employees who have 5 or more years of service and are at least 50 years old.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The entire sick leave benefit liability is reported on the government-wide financial statements.

On the governmental fund financial statements, sick leave benefits are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the funds from which these payments will be made.

The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the District's termination policy.

M. Accrued Liabilities and Long-Term Obligations

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

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

N. Bond Premiums, Bond Discounts and Issuance Costs

In the Government-wide financial statements, bond premiums and discounts are deferred and amortized over the terms of the bonds using the straight-line method which approximates the effective interest rate method. Bonds payable are reported net of the applicable bond premium and discount. Bond issuance costs are expensed as incurred.

On the governmental fund financial statements, governmental fund types recognize issuance costs, bond premiums and bond discounts in the current period. The face amount of the debt issue is reported as other financing sources. Premiums and discounts received on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

O. Net Position

Net position represent 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 are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes primarily consist of unspent bus purchase allowance and special trust funds.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. At fiscal year-end, the District did not have net position restricted by enabling legislation.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. 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 were used:

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

Committed Fund Balance – The committed fund balance classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District Board of Education.

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

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

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

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Interfund Transactions

Transfers between governmental activities on the government-wide statements are reported in the same manner as general revenues.

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.

R. Estimates

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

S. Extraordinary and Special Items

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

T. 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 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.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

3. BUDGETARY BASIS OF ACCOUNTING

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

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

| | <u>General Fund</u> |
|----------------------|---------------------|
| GAAP Basis | \$ 993,738 |
| Public Support Fund | (7,098) |
| Revenue Accruals | (488,963) |
| Expenditure Accruals | 359,042 |
| Encumbrances | (369,922) |
| Budget Basis | \$ 486,797 |

With the implementation of GASB Statement No. 54, *Fund Balance Reporting*, the District's Public School Support Fund no longer meets the special revenue fund type criteria for reporting in the fiscal year-end external financial statements. As such, this fund is presented as part of the District's General Fund in the year-end financial statements. The budgetary comparison information in the fiscal year-end financial statements is the legally adopted budget for the general fund, without modification for the funds no longer meeting the special revenue criteria.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

4. DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

4. DEPOSITS AND INVESTMENTS (Continued)

Deposits

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned. Protection of District cash and deposits is provided by the Federal Deposit Insurance Corporation (FDIC) as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the District places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality, of such county, municipal corporation, or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year-end, the carrying amount of the District's deposits was \$10,530,501 and the bank balance was \$10,619,131. The District's entire bank balance was covered by Federal depository insurance.

Investments

At fiscal year-end, the District reported an investment in STAR Ohio totaling \$82,664. In accordance with GASB Statement No. 79, the District's investment in STAR Ohio is reported at amortized cost. For the fiscal year ended June 30, 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates.

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

Credit Risk - STAR Ohio carries a rating of AAA by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk - The District places no limit on the amount it may invest in any one issuer, however state statute limits investments in commercial paper and bankers' acceptances to 25% of the interim monies available for investment at any one time.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

4. DEPOSITS AND INVESTMENTS (Continued)

The following is a reconciliation of deposits and investments to the Statement of Net Position as of fiscal year-end:

| | |
|---|----------------------|
| Investments (summarized above) | \$ 82,664 |
| Carrying amount of District's deposits | 10,530,501 |
| Less: Fiduciary Funds - Cash and Cash Equivalents | (48,812) |
| Less: Restricted Cash and Cash Equivalents | (1,025) |
| Total Governmental Activities - Cash and Cash Equivalents | <u>\$ 10,563,328</u> |

5. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real property tax revenue received in calendar 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real property tax revenue received in calendar 2016 represents collections of calendar year 2015 taxes. Public utility real property taxes received in calendar year 2016 became a lien December 31, 2011 were levied after April 1, 2015 and are collected in 2016 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages 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 Licking 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 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

5. PROPERTY TAXES (Continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes, which 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 current year operations. The amount available as an advance at June 30, 2016, was \$207,350 in the General Fund, \$45,270 in the Bond Retirement Debt Service Fund, and \$10,290 in the Permanent Improvement Fund.

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

| | 2015 Second- Half Collections | | 2016 First- Half Collections | |
|--|--|----------------|---|----------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | \$ 208,424,312 | 93% | \$ 205,435,800 | 92% |
| Public Utility | 15,555,730 | 7% | 18,032,150 | 8% |
| Total Assessed Value | <u>\$ 223,980,042</u> | <u>100%</u> | <u>\$ 223,467,950</u> | <u>100%</u> |
| Tax rate per \$1,000 of assessed valuation | \$ 38.14 | | \$ 37.88 | |

6. INCOME TAX

The District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1994, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

7. RECEIVABLES

Receivables at June 30, 2016, consisted of property and income taxes, intergovernmental, and accounts (maintenance and student fees). Intergovernmental receivables consist of IDEA-B, Title I, and other General fund revenues totaling \$49,407, \$49,846, and \$85,020 respectively. 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.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

8. CAPITAL ASSETS

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

| Asset Class | Balance July 1, 2015 | Additions | Deletions | Balance June 30, 2016 |
|--|-------------------------------------|-----------------------|------------------|--------------------------------------|
| NonDepreciable Capital Assets: | | | | |
| Land | \$ 566,500 | \$ 26,800 | \$ - | \$ 593,300 |
| Total Nondepreciable Capital Assets | <u>\$ 566,500</u> | <u>\$ 26,800</u> | <u>\$ -</u> | <u>\$ 593,300</u> |
| Depreciable Capital Assets: | | | | |
| Land Improvements | \$ 5,497,150 | \$ 81,007 | \$ - | \$ 5,578,157 |
| Building and Building Improvements | 48,017,694 | 2,358 | - | 48,020,052 |
| Furniture, Fixtures and Equipment | 1,290,173 | 347,146 | (335,520) | 1,301,799 |
| Vehicles | 2,154,110 | 173,993 | (252,954) | 2,075,149 |
| Total Depreciable Capital Assets | <u>56,959,127</u> | <u>604,504</u> | <u>(588,474)</u> | <u>56,975,157</u> |
| Accumulated Depreciation: | | | | |
| Land Improvements | 2,519,262 | 257,744 | - | 2,777,006 |
| Building and Building Improvements | 15,367,625 | 1,378,869 | - | 16,746,494 |
| Furniture, Fixtures and Equipment | 870,558 | 128,466 | (335,520) | 663,504 |
| Vehicles | 1,486,594 | 159,193 | (252,954) | 1,392,833 |
| Total Accumulated Depreciation | <u>20,244,039</u> | <u>1,924,272</u> | <u>(588,474)</u> | <u>21,579,837</u> |
| Total Depreciable Capital Assets, Net of Accumulated Depreciation | <u>\$ 36,715,088</u> | <u>\$ (1,319,768)</u> | <u>\$ -</u> | <u>\$ 35,395,320</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------|---------------------|
| Instruction Regular | 1,470,008 |
| Instruction Vocational | 20,089 |
| Pupil | 795 |
| Administration | 18,989 |
| Fiscal | 3,334 |
| Purchasing Services | 22,424 |
| Plant Operation | 47,862 |
| Pupil Transportation | 154,807 |
| Central | 28,647 |
| Noninstructional Services | 8,660 |
| Extracurricular Activities | 148,657 |
| | <u>\$ 1,924,272</u> |

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year, the District's insurance coverage was as follows:

| <u>Type of Coverage</u> | <u>Deductible</u> | <u>Liability Limit</u> |
|---------------------------------------|-------------------|------------------------|
| Automobile Liability (per occurrence) | 1,000 | 2,000,000 |
| Errors and Omissions | | |
| Per occurrence | 2,500 | 2,000,000 |
| Per year | 0 | 4,000,000 |
| General Liability | | |
| Per occurrence | 0 | 2,000,000 |
| Per year | 0 | 4,000,000 |

The District did not reduce its coverage during the fiscal year and settled claims have not exceeded this commercial coverage in any of the past three years.

During the fiscal year, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate.

Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria.

10. DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

10. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

**LICKING VALLEY LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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10. DEFINED BENEFIT PENSION PLANS (Continued)

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 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$406,417 for fiscal year 2016. Of this amount \$29,273 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

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

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

**LICKING VALLEY LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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10. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 12 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$1,055,367 for fiscal year 2016. Of this amount, \$153,215 is reported as an intergovernmental payable.

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

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

**LICKING VALLEY LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

10. DEFINED BENEFIT PENSION PLANS (Continued)

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|-------------|--------------|--------------|
| Proportionate Share of the Net Pension Liability | \$5,314,602 | \$21,249,345 | \$26,563,947 |
| Proportion of the Net Pension Liability | 0.0931390% | 0.07688710% | |
| Pension Expense | \$400,816 | \$1,311,142 | \$1,711,958 |

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 | \$85,459 | \$966,092 | \$1,051,551 |
| Change in proportionate share | 13,770 | 289,229 | 302,999 |
| District contributions subsequent to the measurement date | <u>406,417</u> | <u>1,055,367</u> | <u>1,461,784</u> |
| Total Deferred Outflows of Resources | <u>\$505,646</u> | <u>\$2,310,688</u> | <u>\$2,816,334</u> |

| | | | |
|--|------------------|--------------------|--------------------|
| Deferred Inflows of Resources | | | |
| Net difference between projected and actual earnings on pension plan investments | <u>\$173,878</u> | <u>\$1,478,065</u> | <u>\$1,651,943</u> |
| Total Deferred Inflows of Resources | <u>\$173,878</u> | <u>\$1,478,065</u> | <u>\$1,651,943</u> |

\$1,461,784 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 | (\$58,850) | (\$256,713) | (\$315,563) |
| 2018 | (58,850) | (256,713) | (315,563) |
| 2019 | (58,681) | (184,405) | (243,086) |
| 2020 | <u>101,732</u> | <u>475,087</u> | <u>576,819</u> |
| Total | <u>(\$74,649)</u> | <u>(\$222,744)</u> | <u>(\$297,393)</u> |

LICKING VALLEY LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

10. DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions - SERS

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

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

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

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

| | |
|--|--|
| Wage Inflation | 3.25 percent |
| Future Salary Increases, including inflation | 4.00 percent to 22 percent |
| COLA or Ad Hoc COLA | 3 percent |
| Investment Rate of Return | 7.75 percent net of investments expense, including inflation |
| Actuarial Cost Method | Entry Age Normal |

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

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

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

**LICKING VALLEY LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

10. DEFINED BENEFIT PENSION PLANS (Continued)

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

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment 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.

| | 1% Decrease 6.75% | Current Discount Rate 7.75% | 1% Increase 8.75% |
|--|----------------------|-----------------------------------|----------------------|
| District's proportionate share of the net pension liability | \$7,369,443 | \$5,314,602 | \$3,584,256 |

Actuarial Assumptions - STRS

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

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

**LICKING VALLEY LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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10. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

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

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

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

**LICKING VALLEY LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

10. DEFINED BENEFIT PENSION PLANS (Continued)

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| District's proportionate share of the net pension liability | \$29,516,944 | \$21,249,345 | \$14,257,858 |

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by School Employees Retirement System or State Teachers Retirement System have an option to choose Social Security. As of June 30, 2016, no members of the Board of Education have elected Social Security. The District's liability is 6.2 percent of wages paid.

11. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Postemployment Benefits

In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers a postemployment benefit plan.

Health Care Plan

Sections 3309.375 and 3309.69 of the Ohio Revised Code permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. For the year ended June 30, 2016, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, prorated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the minimum compensation level was established at \$23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. District contributions assigned to health care, including the surcharge, for the years ended June 30, 2016, 2015, and 2014 were \$44,820, \$68,281 and \$47,736, respectively.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

11. POSTEMPLOYMENT BENEFITS (Continued)

The entire amount has been contributed for fiscal years 2015 and 2014. For fiscal year 2016, the entire amount is reported as an intergovernmental payable.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports on SERS' Health Care plan is included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

B. State Teachers Retirement System

Plan Description – STRS administers a pension plan that is comprised of: a Defined Benefit Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS to offer a cost-sharing, multiple employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy – Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2014 and 2013. Effective July 1, 2014, 0% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate established under Ohio law.

The District's contractually required health care contributions to STRS for fiscal years 2016, 2015, and 2014 were \$0, \$0, and \$70,671, respectively. The entire amount has been contributed for each fiscal year.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

12. EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn 10 to 25 days of vacation per fiscal year, depending upon length of service.

Accumulated, unused vacation time is paid to classified employees and the superintendent upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 280 days for all employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 51 days for all employees.

Employees receive 3 personal days per year. Upon retirement, payment is made for one-fourth of accrued, but unused personal leave.

Bargaining unit members, who retire under STRS criteria, may receive a retirement incentive payment of fifteen thousand dollars (\$15,000). In order to qualify for this benefit, the bargaining unit member must give written notice to the Superintendent on or before April 1 (or Monday following if April 1 is on a weekend) of the year of retirement and have 30 or fewer years.

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees through Assurant Life Insurance.

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**LICKING VALLEY LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

13. LONG-TERM OBLIGATIONS

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

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|-------------------------------|----------------------|----------------------|-----------------------|----------------------|------------------------|
| 2005 Refunding Bonds | | | | | |
| Serial Bonds | 7,805,000 | - | (7,805,000) | - | - |
| Capital Appreciation Bonds | 1,362,173 | 84,611 | (735,000) | 711,784 | 711,784 |
| Serial Bond Premium | 96,127 | - | (96,127) | - | - |
| 2012 Lease-Purchase Agreement | 1,599,527 | - | (133,491) | 1,466,036 | 133,491 |
| 2012B Refunding Bonds | 955,000 | - | (185,000) | 770,000 | 190,000 |
| 2015 Refunding Bonds | - | 7,755,000 | (105,000) | 7,650,000 | 35,000 |
| Serial Bond Premium | - | 339,951 | (16,998) | 322,953 | - |
| Total Bonds and Related Debt | <u>11,817,827</u> | <u>8,179,562</u> | <u>(9,076,616)</u> | <u>10,920,773</u> | <u>1,070,275</u> |
| Net Pension Liability | | | | | |
| STRS | 18,340,069 | 2,909,276 | - | 21,249,345 | - |
| SERS | 4,695,542 | 619,060 | - | 5,314,602 | - |
| Total Net Pension Liability | <u>23,035,611</u> | <u>3,528,336</u> | <u>-</u> | <u>26,563,947</u> | <u>-</u> |
| Capital Leases | 541,092 | 452,441 | (227,183) | 766,350 | 203,689 |
| Compensated Absences | 1,153,053 | 195,653 | (166,378) | 1,182,328 | 175,391 |
| Total | <u>\$ 36,547,583</u> | <u>\$ 12,355,992</u> | <u>\$ (9,470,177)</u> | <u>\$ 39,433,398</u> | <u>\$ 1,449,355</u> |

2005 General Obligation Advance Refunding Bonds

On September 22, 2005, the District issued general obligation bonds totaling \$9,334,989 to advance refund a portion of the 1999 Building Construction Bonds to take advantage of lower interest rates. The refunding bonds consist of serial and capital appreciation bonds. The serial bonds were issued with varying interest rates of 3.0-4.10% and a final maturity of December 1, 2025. The capital appreciation bonds were purchased at a discount at the time of issuance and, at maturity all compound interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semi-annually, the value of the bond increases. The capital appreciation bonds will mature on December 1, 2015 and 2016 in the amount of \$735,000 and \$740,000, respectively. Accumulated accretion at fiscal year-end totaled \$535,664.

Because of this refunding, total debt service payments were reduced by \$1,391,633 for an economic (present value) gain of \$963,949. During fiscal year 2016, the outstanding balance of the serial bonds (\$7,805,000) was currently refunded with the issuance of the General Obligation Refunding Bonds – Series 2015. The remaining capital appreciation bonds will be paid from the debt service fund.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

13. LONG-TERM OBLIGATIONS (Continued)

2012 Lease-Purchase Agreement

On June 15, 2012, the District entered into a series of one-year renewable lease-purchase agreements with Park National Bank (the Bank), whereas the District leases a parcel of land to the Bank, and subsequently constructs school facilities on the land, and the Bank, in turn, subleases the land, and leases the constructed school facilities to the District. The Bank agreed to pre-pay \$2,000,000 in rental payments in order to fund the construction project. In turn, the District agreed to pay \$2,000,000 under the sublease at an interest rate of 3.55%. The final payment to the Bank is due December 1, 2026. The lease-purchase agreement is paid from the permanent improvement fund.

General Obligation Advance Refunding Bonds – Series 2012B

The General Obligation Advance Refunding Bonds are dated September 18, 2012 and were issued in the amount of \$975,000 with a stated interest rate of 1.37% and a final maturity date of December 1, 2019. The General Obligation Advance Refunding Bonds were issued to refund a portion of the 2004 School Facilities Construction Bonds. This refunding was undertaken to take advantage of lower interest rates. Defeased bonds outstanding at fiscal year-end were \$0. The 2012B refunding bonds are paid from the general fund.

General Obligation Refunding Bonds – Series 2015

On September 3, 2015, the District issued general obligation bonds totaling \$7,755,000 to refund a portion of the Series 2005 Refunding Bonds and take advantage of lower interest rates. The refunding bonds consist entirely of serial bonds with stated interest rates ranging from 2% to 3% and a final maturity date of December 1, 2025. This refunding resulted in cash flow savings of \$825,763 and an economic gain of \$748,054. Defeased bonds outstanding at fiscal year-end were \$0. The 2015 refunding bonds are paid from the debt service fund.

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

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|--------------------------------|----------------------|---------------------|----------------------|
| 2017 | \$ 1,070,275 | \$ 284,785 | \$ 1,355,060 |
| 2018 | 1,098,491 | 241,061 | 1,339,552 |
| 2019 | 1,113,491 | 218,019 | 1,331,510 |
| 2020 | 1,133,491 | 194,735 | 1,328,226 |
| 2021 | 953,491 | 172,252 | 1,125,743 |
| 2022-2026 | 5,097,456 | 423,779 | 5,521,235 |
| 2027 | 131,125 | 2,366 | 133,491 |
| Total | <u>\$ 10,597,820</u> | <u>\$ 1,536,997</u> | <u>\$ 12,134,817</u> |

Capital leases are paid from the General Fund. The District pays obligations related to employee compensation from the fund benefiting from their service, which includes the general fund, food service fund and various other state and federal grant funds.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

13. LONG-TERM OBLIGATIONS (Continued)

Section 133.06 of the Revised Code provides that, exclusive of certain “exempt debt,” the net principal amount of unvoted general obligation debt of a District may not exceed one-tenth (0.10%) of one percent of the total assessed property value listed within the District. Section 133.06 also provides that the net principal amount of voted and unvoted general obligation debt of any District may not exceed nine (9.0%) of the total assessed value, except as in the case of a special needs school district. As such, the District's voted and unvoted legal debt limits are \$20,112,116 and \$223,468, respectively. At fiscal year-end, the District complied with both limits.

14. CAPITAL LEASES - LESSEE DISCLOSURE

The District has entered into capitalized leases for copiers and school buses. The leases meet the criteria of a capital lease as defined by Governmental Accounting Standards Board Statement No. 62, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the combined financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

The copiers have been capitalized in the amount of \$335,520. The copy machines had accumulated depreciation of \$335,520 as of June 30, 2016. The capitalized amount of the leases represents the present value of the minimum lease payment at the time of acquisition. A corresponding liability is recorded in the statement of net position. Principal payments in fiscal year 2016 totaled \$54,430 in the governmental funds. The copiers were sold during fiscal year 2016 and replaced with new leased copiers.

The copiers leased in fiscal year 2016 have been capitalized in the amount of \$235,773. The copy machines had accumulated depreciation of \$23,577 as of June 30, 2016. The capitalized amount of the leases represents the present value of the minimum lease payment at the time of acquisition. A corresponding liability is recorded in the statement of net position. Principal payments in fiscal year 2016 totaled \$20,395 in the governmental funds.

The school buses have been capitalized in the amount of \$1,039,157. The buses had accumulated depreciation of \$389,384 as of June 30, 2016. The capitalized amount of the leases represents the present value of the minimum lease payment at the time of acquisition. A corresponding liability is recorded in the statement of net position. Principal payments in fiscal year 2016 totaled \$152,358 in the governmental funds.

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

| <u>Fiscal Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|------------------------------------|-------------------|------------------|
| 2017 | 203,689 | 27,789 |
| 2018 | 211,112 | 20,366 |
| 2019 | 218,830 | 12,648 |
| 2020 | 96,383 | 3,700 |
| 2021 | 36,336 | 653 |
| Totals | <u>\$ 766,350</u> | <u>\$ 65,156</u> |

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

15. CAPITAL ACQUISITION SET-ASIDE CALCULATIONS

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 acquisitions. Disclosure of this information is required by State statute.

| | Capital Acquisition |
|---|------------------------|
| Set-aside cash balance as of June 30, 2015 | \$ - |
| Current fiscal year set-aside requirement | 343,678 |
| Current Year Offsets | (343,678) |
| Set-aside cash balance as of June 30, 2016 | \$ - |
| Set-aside balance carried forward to FY 2017 | \$ - |

The District had qualifying disbursements and current year offsets that would have reduced the fiscal year-end balance below zero; however, since negative amounts may not be used to reduce the set-aside requirement in future years, the current year offset amount was limited to an amount necessary to reduce the fiscal year-end balance to zero.

16. JOINTLY GOVERNED ORGANIZATIONS

The Career and Technology Education Centers of Licking County is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the 9 participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Career and Technology Education Centers of Licking County at 150 Price Road, Newark, Ohio 43055.

The District participates in the Metropolitan Educational Technology Association (META), a jointly governed organization. The organization is composed of over 200 members which includes school districts, joint vocational schools, educational service centers, and libraries covering 37 counties in Central Ohio. The META helps its members purchase services, insurances, supplies, and other items at a discounted rate. The governing board of META is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County and one representative from each county outside of Franklin County. Each year, the participating school districts pay a membership fee to META to cover the costs of administering the program. The District's membership payment to META for fiscal year 2016 was \$838. Financial information may be obtained from the Metropolitan Educational Technology Association, Dave Varda, who serves as Chief Financial Officer, at 2100 Citygate Dr., Columbus, OH 43219.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

16. JOINTLY GOVERNED ORGANIZATIONS (Continued)

The Central Ohio Special Education Regional Resource Center (COSERRC) is one of sixteen (16) centers in Ohio, which serves as the organizational structure offering multi-district special educational services. Each SERRC is designed to initiate, expand, and improve the delivery of special education services to children with disabilities ages 3 through 21. The governing board of COSERRC consists of superintendents or a designated representative from each school district. Financial information may be obtained from the Franklin County Education Service Center at 2080 Citygate Drive, Columbus, Ohio, 43219.

The Coalition for Equity & Adequacy of School Funding is organized as a council of governments pursuant to Chapter 167 of the Ohio Revised Code. The mission of the Coalition is to secure high quality educational opportunities for all Ohio school children without diminishing opportunities for students who reside in high capacity districts. The Coalition was organized in 1990 to challenge the constitutionality of the Ohio school funding system. The Coalition is governed by a Steering Committee of 90 school district representatives. Though most of the members are superintendents, some treasurers, board members and administrators also serve. Several persons serve as *ex officio* members. Steering Committee members serve without stipend or expense reimbursement from the Coalition. Financial information may be obtained from the Coalition for Equity & Adequacy of School Funding, 100 South Third Street, Columbus, Ohio 43215, by calling (614) 228-6540, or email to ohioeanda@sbcglobal.net.

17. INSURANCE PURCHASING POOL

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

The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund."

This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

18. CONTINGENCIES

A. Grants

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

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

B. Litigation

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

C. Foundation Funding

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

19. INTERFUND TRANSACTIONS

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

| | |
|---------------------------------|-------------------------|
| Transfers from General Fund to: | |
| Other Governmental Funds | <u>\$388,529</u> |
| Total Transfers | <u><u>\$388,529</u></u> |

Transfers from the General Fund to Other Governmental Funds represents funding for permanent improvements and an amount to fund building maintenance, as required by the school facilities construction project. Interfund transfers between governmental funds are eliminated on the government-wide financial statements.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

20. CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year ending June 30, 2016, the District has implemented the following:

For fiscal year 2016, the District implemented *GASB Statement No. 72 "Fair Value Measurement and Application"* which enhances comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement also enhances fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The implementation of this statement did not have an effect on the financial statements of the District.

For fiscal year 2016, the District implemented *GASB Statement No. 76 "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"* which improves financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in non-authoritative literature. The implementation of this statement did not have an effect on the financial statements of the District.

For fiscal year 2016, the District implemented *GASB Statement No. 79 "Certain External Investment Pools and Pool Participants"* which 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 this statement did not have a significant effect on the financial statements of the District.

REQUIRED SUPPLEMENTARY INFORMATION

**LICKING VALLEY LOCAL SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**

LAST 3 FISCAL YEARS (1)

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|--------------|--------------|--------------|
| District's Proportion of the Net Pension Liability | 0.0931390% | 0.092780% | 0.092780% |
| District's Proportionate Share of the Net Pension Liability | \$ 5,314,602 | \$ 4,695,543 | \$ 5,517,329 |
| District's Covered-Employee Payroll | \$ 2,826,257 | \$ 2,648,143 | \$ 2,680,875 |
| District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 188.04% | 177.31% | 205.80% |
| 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.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM OF OHIO**

LAST 3 FISCAL YEARS (1)

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|--|---------------|---------------|---------------|
| District's Proportion of the Net Pension Liability | 0.07688710% | 0.07540074% | 0.07540074% |
| District's Proportionate Share of the Net Pension Liability | \$ 21,249,345 | \$ 18,340,069 | \$ 21,846,571 |
| District's Covered-Employee Payroll | \$ 7,224,098 | \$ 7,067,136 | \$ 7,132,003 |
| District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 294.15% | 259.51% | 306.32% |
| 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.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**

LAST NINE FISCAL YEARS (1)

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Contractually Required Contribution | \$ 406,417 | \$ 372,501 | \$ 367,033 | \$ 371,033 | \$ 358,813 | \$ 325,216 | \$ 348,310 | \$ 424,426 | \$ 442,799 |
| Contributions in relation to the contractually required contribution | \$ 406,417 | \$ 372,501 | \$ 367,033 | \$ 371,033 | \$ 358,813 | \$ 325,216 | \$ 348,310 | \$ 424,426 | \$ 442,799 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered-employee payroll | \$ 2,902,979 | \$ 2,826,257 | \$ 2,648,143 | \$ 2,680,875 | \$ 2,667,754 | \$ 2,587,239 | \$ 2,572,452 | \$ 4,313,272 | \$ 4,509,155 |
| Contributions as a percentage of covered-employee payroll | 14.00% | 13.18% | 13.86% | 13.84% | 13.45% | 12.57% | 13.54% | 9.84% | 9.82% |

(1) Information prior to 2008 is not available.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
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 | \$ 1,055,367 | \$ 1,011,374 | \$ 918,728 | \$ 927,160 | \$ 895,953 | \$ 801,699 | \$ 1,012,744 | \$ 968,921 | \$ 1,092,765 | \$ 1,132,501 |
| Contributions in relation to the contractually required contribution | \$ 1,055,367 | \$ 1,011,374 | \$ 918,728 | \$ 927,160 | \$ 895,953 | \$ 801,699 | \$ 1,012,744 | \$ 968,921 | \$ 1,092,765 | \$ 1,132,501 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered-employee payroll | \$ 7,538,336 | \$ 7,224,098 | \$ 7,067,136 | \$ 7,132,003 | \$ 6,891,949 | \$ 6,166,915 | \$ 7,790,338 | \$ 7,453,238 | \$ 8,405,885 | \$ 8,711,546 |
| Contributions as a percentage of covered-employee payroll | 14.00% | 14.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |

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**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

| FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title | Federal CFDA Number | Total Federal Expenditures |
|---|------------------------------------|---------------------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | |
| <i>Passed Through Ohio Department of Education:</i> | | |
| Child Nutrition Cluster: | | |
| Non-Cash Assistance (Food Assistance) | | |
| National School Lunch Program | 10.555 | \$ 90,435 |
| Cash Assistance | | |
| School Breakfast Program | 10.553 | 155,996 |
| National School Lunch Program | 10.555 | 358,747 |
| Total Child Nutrition Cluster | | 605,178 |
| Team Nutrition Grant | 10.574 | 1,200 |
| Total U.S. Department of Agriculture | | 606,378 |
| U.S. DEPARTMENT OF EDUCATION | | |
| <i>Passed Through Ohio Department of Education:</i> | | |
| Title I Grants to Local Educational Agencies | 84.010 | 355,939 |
| Special Education Grants to States | 84.027 | 359,562 |
| Improving Teacher Quality Grants to States | 84.367 | 54,499 |
| Total U.S. Department of Education | | 770,000 |
| Total Expenditures of Federal Awards | | \$ 1,376,378 |

The accompanying notes are an integral part of this schedule.

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments* (codified in 2 CFR Part 225), and 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 fair 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*

Licking Valley Local School District
Licking County
1379 Licking Valley Road NE
Newark, Ohio 43055

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Licking Valley Local School District, Licking County, Ohio, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 4, 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

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

Dave Yost
Auditor of State
Columbus, Ohio

January 4, 2017



Dave Yost • Auditor of State

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

Licking Valley Local School District
Licking County
1379 Licking Valley Road NE
Newark, Ohio 43055

To the Board of Education:

Report on Compliance for the Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which Uniform Guidance requires us to report, described in the accompanying schedule of findings as item 2016-001. Our opinion on the major federal program is not modified with respect to this matter.

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 the 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's compliance requirement will not be prevented, or timely detected or corrected. A *significant deficiency in internal over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a 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 was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness, described in the accompanying schedule of findings as item 2016-001.

The District's response to our internal control over compliance finding is described in the accompanying corrective action plan. We did not audit the District's response and, accordingly, we express no opinion on it.

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



Dave Yost
Auditor of State
Columbus, Ohio

January 4, 2017

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|--|---|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unmodified |
| <i>(d)(1)(ii)</i> | Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iv)</i> | Were there any material weaknesses in internal control reported for major federal programs? | Yes |
| <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)? | Yes |
| <i>(d)(1)(vii)</i> | Major Programs (list): | Special Education Grants to States – CFDA #84.027 |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A/B Programs | Type A: > \$ 750,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee under 2 CFR §200.520? | Yes |

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

None

**LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

| |
|---------------------------------------|
| 3. FINDINGS FOR FEDERAL AWARDS |
|---------------------------------------|

Cash Management

| | | | |
|---|---|-----------------------------------|-----|
| Finding Number | 2016-001 | | |
| CFDA Title and Number | CFDA #84.027 – Special Education Grants to States | | |
| Federal Award Identification Number / Year | 2016 | | |
| Federal Agency | U.S. Department of Education | | |
| Pass-Through Entity | Ohio Department of Education | | |
| Repeat Finding from Prior Audit? | No | Finding Number (if repeat) | N/A |

Material Weakness/Material Noncompliance

2 CFR §3474.1 gives regulatory effect to the OMB guidance for **2 CFR § 200.305** which states that advances should only be requested to cover expenses that are ready to be paid. Advances can be requested to cover payroll expenses and invoices that have been received and will be paid within five business days of receiving grant funds. Advances should not be requested for encumbrances in which services and invoices have not been received unless you are certain that you will receive and pay the invoice within these established guidelines. Therefore, when requesting advance funds, non-Federal entities must now liquidate cash advances within five business days after receiving the funds. To help prevent districts from running a deficit in funds due to the five-day liquidation rule and to also comply with OMNI guidance 200.305 (ii) below, multiple advances can now be requested in a one month period.

We noted two separate instances during our testing where the funds were not expended within 5 business days. One draw received on September 14, 2015 had \$20,316 that was not fully expended until October 9, 2015. One additional draw received on March 17, 2016 had \$15,816 that was not fully expended until March 25, 2016.

Failure to expend advanced funds within the five business day timeframe could lead to unnecessary interest being earned that could essentially end up being owed back to the Ohio Department of Education.

We recommend the District only draw down the amount of funds that is immediately needed and can be expended within the five business day requirement. We also recommend the District utilize the multiple draw per month function to ensure that they are expending all advances within five business days.

Officials' Response:

See Corrective Action Plan

LICKING VALLEY LOCAL SCHOOL DISTRICT
LICKING 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 | The District will request drawdowns for the fiscal year 2017 federal grant programs according to the 5 day Cash Management Rule as required. | August 18, 2017 | Jo Lynn Torbert, Treasurer |

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Dave Yost • Auditor of State

LICKING VALLEY LOCAL SCHOOL DISTRICT

LICKING 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
JANUARY 24, 2017