



Dave Yost • Auditor of State

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY
JUNE 30, 2016**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Northeastern Local School District
Defiance County
05751 Domersville Road
Defiance, Ohio 43512-6703

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Northeastern Local School District, Defiance 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 the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the 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 cash financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Northeastern Local School District, Defiance County, Ohio, as of June 30, 2016, and the respective changes in cash financial position and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Matters

Other Information

We applied no procedures to Management's Discussion and Analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

May 3, 2017

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- The total net cash position of the District increased \$1,974,440 or 33.24% from fiscal year 2015.
- General cash receipts accounted for \$11,777,569 or 82.49% of all governmental activities cash receipts. Program specific cash receipts in the form of charges for services and sales, grants and contributions accounted for \$2,499,826 or 17.51% of total cash receipts of \$14,277,395.
- The District had \$12,302,955 in cash disbursements related to governmental activities; only \$2,499,826 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$11,777,569 were adequate to provide for these programs.
- The District's major governmental fund is the General Fund. The General Fund had \$12,732,549 in cash receipts and other financing sources and \$10,831,973 in cash disbursements and other financing uses. During fiscal year 2016, the General Fund's cash balance increased from \$5,339,269 to \$7,239,845.

Using these Cash Basis Basic Financial Statements (BFS)

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's cash basis of accounting.

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

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The statement of net position and the statement of activities answer this question. These statements include only net position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting will take into account only the current year's receipts and disbursements if the cash is actually received or paid.

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DEFIANCE COUNTY, OHIO**

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the General Fund; all other governmental funds are considered non-major.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs.

Since the District is reporting on the cash basis of accounting, there are no differences in the net cash position and fund cash balances or changes in net cash position and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or outside parties. These activities are reported in two agency funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net position and statement of changes in fiduciary net position. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations. These funds use the cash basis of accounting.

Notes to the Basic Financial Statements

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

The District as a Whole

The statement of net positions provides the perspective of the District as a whole. The table below provides a summary of the District's net cash position at June 30, 2016 and 2015.

	Net Cash Position	
	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
<u>Assets</u>		
Current and other assets	\$ 7,913,790	\$ 5,939,350
<u>Net Cash Position</u>		
Restricted	681,749	600,081
Unrestricted	<u>7,232,041</u>	<u>5,339,269</u>
Total net cash position	<u>\$ 7,913,790</u>	<u>\$ 5,939,350</u>

At June 30, 2016, the District's net cash position was \$7,913,790. A portion of this amount, or \$681,749, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net cash position of \$7,232,041 may be used to meet the District's ongoing obligations to its students and creditors.

The following table shows the change net cash position for fiscal years 2016 and 2015.

	Change in Net Cash Position	
	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
<u>Cash Receipts</u>		
Program cash receipts:		
Charges for services and sales	\$ 1,765,655	\$ 1,705,885
Operating grants and contributions	734,171	957,747
General cash receipts:		
Property taxes	8,031,626	7,678,931
Payments in lieu of taxes	36,444	2,331
Grants and entitlements	3,618,018	3,454,324
Investment earnings	46,339	24,250
Miscellaneous	45,142	49,444
Sale of refunding bonds	-	4,105,000
Total cash receipts	<u>14,277,395</u>	<u>17,977,912</u>

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**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

	Governmental Activities <u>2016</u>	Governmental Activities <u>2015</u>
<u>Cash Disbursements</u>		
Program disbursements:		
Instruction:		
Regular	\$ 4,869,375	\$ 4,779,724
Special	1,071,168	1,063,968
Vocational	105,650	111,598
Other	788,526	798,687
Support services:		
Pupil	651,528	630,189
Instructional staff	412,988	382,199
Board of education	65,784	61,048
Administration	871,210	837,896
Fiscal	348,510	400,985
Operations and maintenance	922,672	909,793
Pupil transportation	784,509	784,455
Central	50,070	48,764
Food service operations	480,684	491,725
Other non-instructional services	8,725	6,047
Extracurricular activities	344,286	407,461
Facilities acquisition and construction	48,475	89,839
Principal retirement	78,200	375,000
Interest and fiscal charges	400,595	198,692
Refunding bond issuance costs	-	116,100
Payment to refunded bond escrow agent	-	4,046,950
Total cash disbursements	<u>12,302,955</u>	<u>16,541,120</u>
Change in net cash position	1,974,440	1,436,792
Net cash position at beginning of year	<u>5,939,350</u>	<u>4,502,558</u>
Net cash position at end of year	<u><u>\$ 7,913,790</u></u>	<u><u>\$ 5,939,350</u></u>

Governmental Activities

Net cash position of the District's governmental activities increased \$1,974,440. Total governmental cash disbursements of \$12,302,955 were offset by program cash receipts of \$2,499,826 and general cash receipts of \$11,777,569. Program cash receipts supported 20.32% of the total governmental disbursements.

The significant decrease in both cash receipts and cash disbursements is mostly related to a \$4.1 million bond refunding in fiscal year 2015. Total cash receipts from other sources actually increased in 2016. Property tax receipts increased \$352,695 (4.59%) due to increased property values within the District, particularly public utility personal property. Unrestricted grants and entitlements were \$163,694 (4.74%) higher in 2016, mostly due to an increased

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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allocation of State Foundation dollars. These increases offset a decrease in operating grants and contributions which was a result of a decline in state and federal grant funding for special education programs.

Aside from costs related to the bond refunding in fiscal year 2015, total cash disbursements for the District were essentially unchanged in 2016, decreasing \$75,115 or 0.61%.

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

Governmental Activities

	Total Cost of Services <u>2016</u>	Net Cost of Services <u>2016</u>	Total Cost of Services <u>2015</u>	Net Cost of Services <u>2015</u>
Program Cash Disbursements				
Instruction:				
Regular	\$ 4,869,375	\$ 3,473,294	\$ 4,779,724	\$ 3,475,632
Special	1,071,168	554,911	1,063,968	495,447
Vocational	105,650	101,974	111,598	104,485
Other	788,526	788,526	798,687	648,316
Support services:				
Pupil	651,528	648,410	630,189	622,404
Instructional staff	412,988	411,234	382,199	380,445
Board of education	65,784	65,784	61,048	61,048
Administration	871,210	871,210	837,896	807,947
Fiscal	348,510	348,510	400,985	400,985
Operations and maintenance	922,672	922,672	909,793	909,793
Pupil transportation	784,509	780,812	784,455	776,820
Central	50,070	44,670	48,764	43,364
Food service operations	480,684	56,584	491,725	63,895
Other non-instructional services	8,725	6,670	6,047	6,047
Extracurricular activities	344,286	200,598	407,461	254,279
Facilities acquisition and construction	48,475	48,475	89,839	89,839
Principal retirement	78,200	78,200	375,000	375,000
Interest and fiscal charges	400,595	400,595	198,692	198,692
Refunding bond issuance costs	-	-	116,100	116,100
Payment to refunded bond escrow agent	-	-	4,046,950	4,046,950
Total	<u>\$ 12,302,955</u>	<u>\$ 9,803,129</u>	<u>\$ 16,541,120</u>	<u>\$ 13,877,488</u>

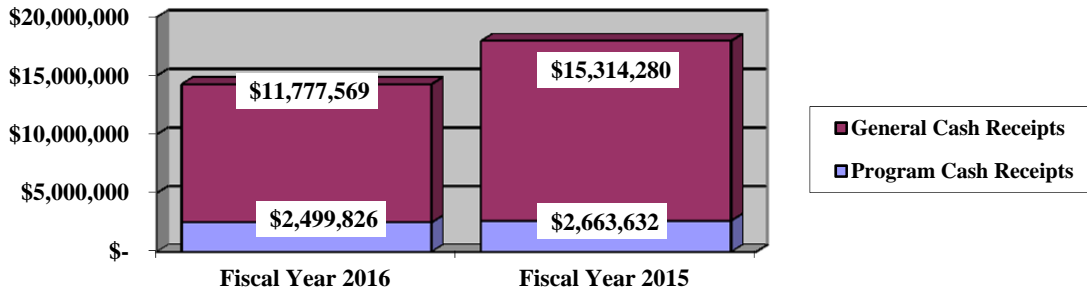
The dependence upon general cash receipts for governmental activities is apparent, with 79.68% and 83.90% of cash disbursements supported through taxes and other general cash receipts during fiscal years 2016 and 2015, respectively.

The following graph presents the District's governmental activities cash receipts for fiscal years 2016 and 2015.

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DEFIANCE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
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Governmental Activities - General and Program Cash Receipts



The District's Funds

The District's governmental funds reported a combined fund cash balance of \$7,913,790, compared to last year's combined fund cash balance of \$5,939,350. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2016 and June 30, 2015, for all major and nonmajor governmental funds.

	Fund Cash Balance <u>June 30, 2016</u>	Fund Cash Balance <u>June 30, 2015</u>	<u>Increase</u>
General	\$ 7,239,845	\$ 5,339,269	\$ 1,900,576
Nonmajor governmental	<u>673,945</u>	<u>600,081</u>	<u>73,864</u>
Total	<u>\$ 7,913,790</u>	<u>\$ 5,939,350</u>	<u>\$ 1,974,440</u>

General Fund

The table that follows assists in illustrating the cash receipts of the General Fund.

	<u>2016</u> <u>Amount</u>	<u>2015</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Cash Receipts</u>				
Property taxes	\$ 7,480,207	\$ 7,069,060	\$ 411,147	5.82 %
Payments in lieu of taxes	36,444	2,331	34,113	1,463.45 %
Tuition and fees	1,280,922	1,240,135	40,787	3.29 %
Earnings on investments	46,339	24,250	22,089	91.09 %
Intergovernmental	3,753,541	3,626,594	126,947	3.50 %
Other receipts	<u>124,096</u>	<u>95,790</u>	<u>28,306</u>	29.55 %
Total	<u>\$ 12,721,549</u>	<u>\$ 12,058,160</u>	<u>\$ 663,389</u>	5.50 %

The two largest sources of cash receipts for the General Fund, property taxes and intergovernmental grants and entitlements, both increased in 2016, which led to a healthy 5.50% increase in total cash receipts. These two sources accounted for \$538,094 or 81.11% of the overall increase in cash receipts. As previously mentioned, property taxes

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
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increased as a result of a spike in assessed property values, while the increase in intergovernmental receipts is mostly due to additional State Foundation revenue.

The table that follows assists in illustrating the cash disbursements of the General Fund.

	<u>2016</u> <u>Amount</u>	<u>2015</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Cash Disbursements</u>				
Instruction	\$ 6,446,106	\$ 6,358,806	\$ 87,300	1.37 %
Support services	4,095,441	4,033,126	62,315	1.55 %
Operation of non-instructional services	8,725	6,047	2,678	44.29 %
Extracurricular activities	232,574	244,004	(11,430)	(4.68) %
Facilities acquisition and construction	<u>48,475</u>	<u>64,840</u>	<u>(16,365)</u>	<u>(25.24) %</u>
Total	<u>\$ 10,831,321</u>	<u>\$ 10,706,823</u>	<u>\$ 124,498</u>	<u>1.16 %</u>

Overall, there was no significant change in General Fund cash disbursements compared to the prior year. There was a net increase of two additional staff members in 2016 which lead to a slight increase in cost for wages and benefits.

General Fund Budgeting Highlights

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

For the General Fund, the original budget for receipts and other financing sources was \$11,818,567 and the final budget was \$11,688,969. The actual budgetary basis receipts and other financing sources of \$12,652,699 exceeded final budget estimates by \$963,730. The District utilizes a conservative approach in budgeting the estimated receipts which resulted in actual receipts exceeding the budgeted amounts.

Original budgetary basis disbursements and other financing uses of \$12,908,542 were decreased slightly to \$12,493,480 in the final budget. The actual budgetary basis disbursements and other financing uses of \$11,206,856 were \$1,286,624 less than the final budget estimates. This variance is primarily due to a conservative "worst case scenario" approach to budgeting for disbursements.

Capital Assets and Debt Administration

Capital Assets

The District does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as disbursements. The District had facilities acquisition and construction disbursements of \$48,475 during fiscal year 2016.

Debt Administration

At June 30, 2016, the District had \$4,432,815 in general obligation bonds outstanding. Of the total outstanding debt, \$377,815 is due within one year and \$4,055,000 is due in more than one year. Additions in fiscal year 2016, consisting of accreted interest on general obligation capital appreciation bonds, totaled \$55,984 and debt retirements totaled \$395,000.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
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Current Financial Related Activities

The Northeastern Local School District encompasses approximately 117 square miles in the northeastern corner of Defiance County. It is a rural community with approximately 12,000 residents. In addition to the agricultural base, the District has some industrial and commercial businesses that have contributed to the financial stability of the District.

During fiscal year (FY) 2016, the District was operating in the first year of the state biennium budget. 70 percent of District revenue sources are from local funds, 26 percent is from State funds, and the remaining 4 percent is from Federal funds. The total expenditure per pupil was calculated at \$9,732.

Preliminary projections indicate that the District will receive an additional \$197,202 in State Foundation funding in FY 2017. Open enrollment revenue continues to increase as more students from neighboring districts are accepted through open enrollment.

Due to the phase-out of tangible personal property tax reimbursement the District received \$218,651 less in reimbursements in FY 2016 than in the three previous years. The same amount of decrease is expected in FY 2017 resulting in reimbursement in the amount of \$28,237. By FY 2018 the District will no longer receive any TPP direct reimbursement.

The District has enjoyed steady growth in its tax base. New businesses continue to locate in the District allowing it to provide the educational opportunities to which the residents are accustomed. However, like all school districts in Ohio, the Northeastern Local School District is faced with financial challenges such as changes to state funding, the long-term effects of public utility deregulation, and the elimination of personal property taxes on business inventory. On November 8, 2016 voters in the District will be asked to approve a renewal of a 9.9 mill general operating levy to be placed on the tax list and duplicate for the 2017 tax year due in calendar year 2018. This levy produces approximately \$2,243,679 in tax revenue annually.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Susan Garmyn, Treasurer, Northeastern Local School District, 05751 Domersville Road, Defiance, Ohio 43512-6703.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2016

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 4,641,726
Investments	3,272,064
Total assets	<u>\$ 7,913,790</u>
Net cash position:	
Restricted for:	
Capital projects	\$ 316,623
Debt service	300,321
Student activities	54,821
Food service operations	2,180
Facilities maintenance	7,804
Unrestricted	7,232,041
Total net cash position	<u>\$ 7,913,790</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

	Cash Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 4,869,375	\$ 1,306,940	\$ 89,141	\$ (3,473,294)
Special	1,071,168	37,089	479,168	(554,911)
Vocational	105,650		3,676	(101,974)
Other	788,526			(788,526)
Support services:				
Pupil	651,528		3,118	(648,410)
Instructional staff	412,988		1,754	(411,234)
Board of education	65,784			(65,784)
Administration	871,210			(871,210)
Fiscal	348,510			(348,510)
Operations and maintenance	922,672			(922,672)
Pupil transportation	784,509		3,697	(780,812)
Central	50,070	5,400		(44,670)
Operation of non-instructional services:				
Food service operations	480,684	272,538	151,562	(56,584)
Other non-instructional services	8,725		2,055	(6,670)
Extracurricular activities	344,286	143,688		(200,598)
Facilities acquisition and construction	48,475			(48,475)
Debt service:				
Principal retirement	78,200			(78,200)
Interest and fiscal charges	400,595			(400,595)
Totals	\$ 12,302,955	\$ 1,765,655	\$ 734,171	(9,803,129)

General cash receipts:

Property taxes levied for:	
General purposes	7,480,207
Debt service	465,008
Capital outlay	86,411
Payments in lieu of taxes	36,444
Grants and entitlements not restricted to specific programs	
	3,618,018
Investment earnings	46,339
Miscellaneous	45,142
Total general cash receipts	11,777,569
Change in net cash position	1,974,440
Net cash position at beginning of year	5,939,350
Net cash position at end of year	\$ 7,913,790

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 3,967,781	\$ 673,945	\$ 4,641,726
Investments	3,272,064		3,272,064
Total assets	\$ 7,239,845	\$ 673,945	\$ 7,913,790
Fund balances:			
Restricted:			
Debt service		\$ 300,321	\$ 300,321
Capital improvements		316,623	316,623
Food service operations		2,180	2,180
Student activities		54,821	54,821
Facilities maintenance	\$ 7,804		7,804
Assigned:			
Student instruction	59,239		59,239
Student and staff support	363,800		363,800
Extracurricular activities	1,494		1,494
Facilities acquisition and construction	39,550		39,550
Subsequent year's appropriations	220,739		220,739
Unassigned	6,547,219		6,547,219
Total fund balances	\$ 7,239,845	\$ 673,945	\$ 7,913,790

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash receipts:			
From local sources:			
Property taxes	\$ 7,480,207	\$ 551,419	\$ 8,031,626
Payment in lieu of taxes	36,444		36,444
Tuition	1,216,724		1,216,724
Earnings on investments	46,339		46,339
Charges for services		272,538	272,538
Extracurricular	91,957	114,838	206,795
Classroom materials and fees	64,198		64,198
Rental income	550		550
Contributions and donations	16,250	2,055	18,305
Contract services	5,400		5,400
Other local revenues	9,939	7,403	17,342
Intergovernmental - state	3,669,450	62,144	3,731,594
Intergovernmental - federal	84,091	534,449	618,540
Total cash receipts	<u>12,721,549</u>	<u>1,544,846</u>	<u>14,266,395</u>
Cash disbursements:			
Current:			
Instruction:			
Regular	4,780,234	89,141	4,869,375
Special	771,696	299,472	1,071,168
Vocational	105,650		105,650
Other	788,526		788,526
Support services:			
Pupil	648,410	3,118	651,528
Instructional staff	411,234	1,754	412,988
Board of education	65,784		65,784
Administration	871,210		871,210
Fiscal	341,552	6,958	348,510
Operations and maintenance	922,672		922,672
Pupil transportation	784,509		784,509
Central	50,070		50,070
Operation of non-instructional services:			
Food service operations		480,684	480,684
Other non-instructional services	8,725		8,725
Extracurricular activities	232,574	111,712	344,286
Facilities acquisition and construction	48,475		48,475
Debt service:			
Principal retirement		78,200	78,200
Interest and fiscal charges		400,595	400,595
Total cash disbursements	<u>10,831,321</u>	<u>1,471,634</u>	<u>12,302,955</u>
Excess of cash receipts over cash disbursements	<u>1,890,228</u>	<u>73,212</u>	<u>1,963,440</u>
Other financing sources (uses):			
Proceeds from sale of assets	11,000		11,000
Transfers in		652	652
Transfers (out)	(652)		(652)
Total other financing sources (uses)	<u>10,348</u>	<u>652</u>	<u>11,000</u>
Net change in fund balances	1,900,576	73,864	1,974,440
Fund balance at beginning of year	<u>5,339,269</u>	<u>600,081</u>	<u>5,939,350</u>
Fund balance at end of year	<u>\$ 7,239,845</u>	<u>\$ 673,945</u>	<u>\$ 7,913,790</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts:				
From local sources:				
Property taxes	\$ 7,448,798	\$ 7,319,200	\$ 7,480,207	\$ 161,007
Payment in lieu of taxes	33,678	33,678	36,444	2,766
Tuition	950,000	950,000	1,216,724	266,724
Earnings on investments	15,000	15,000	46,339	31,339
Classroom materials and fees	38,300	38,300	42,419	4,119
Rental income			550	550
Contributions and donations			16,250	16,250
Contract services	5,400	5,400	5,400	
Other local revenues	1,700	1,700	9,725	8,025
Intergovernmental - state	3,303,691	3,303,691	3,669,450	365,759
Intergovernmental - federal	22,000	22,000	84,091	62,091
Total receipts	<u>11,818,567</u>	<u>11,688,969</u>	<u>12,607,599</u>	<u>918,630</u>
Disbursements:				
Current:				
Instruction:				
Regular	5,079,815	5,107,665	4,788,761	318,904
Special	899,250	899,750	772,787	126,963
Vocational	118,310	118,310	106,900	11,410
Other	812,749	825,999	793,078	32,921
Support services:				
Pupil	682,425	724,275	653,431	70,844
Instructional staff	474,949	490,449	430,528	59,921
Board of education	123,171	123,171	87,492	35,679
Administration	884,132	885,632	850,347	35,285
Fiscal	442,807	442,832	344,698	98,134
Operations and maintenance	1,121,953	1,197,653	1,026,676	170,977
Pupil transportation	978,016	1,092,216	970,619	121,597
Central	749,500	75,563	50,070	25,493
Operation of non-instructional services	13,150	13,650	8,725	4,925
Extracurricular activities	276,260	281,410	234,067	47,343
Facilities acquisition and construction	112,055	124,905	88,025	36,880
Total disbursements	<u>12,768,542</u>	<u>12,403,480</u>	<u>11,206,204</u>	<u>1,197,276</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(949,975)</u>	<u>(714,511)</u>	<u>1,401,395</u>	<u>2,115,906</u>
Other financing sources (uses):				
Refund of prior year's expenditures			34,100	34,100
Refund of prior year's receipts	(25,000)			
Proceeds from sale of assets			11,000	11,000
Transfers (out)	(65,000)	(65,000)	(652)	64,348
Advances (out)	(50,000)	(25,000)		25,000
Total other financing sources (uses)	<u>(140,000)</u>	<u>(90,000)</u>	<u>44,448</u>	<u>134,448</u>
Net change in fund balance	(1,089,975)	(804,511)	1,445,843	2,250,354
Fund balance at beginning of year	4,955,268	4,955,268	4,955,268	
Prior year encumbrances appropriated	364,842	364,842	364,842	
Fund balance at end of year	<u>\$ 4,230,135</u>	<u>\$ 4,515,599</u>	<u>\$ 6,765,953</u>	<u>\$ 2,250,354</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2016

	<u>Private Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ 11,047	\$ 29,476
	<u>11,047</u>	<u>29,476</u>
Liabilities:		
Undistributed monies		\$ 29,476
		<u>29,476</u>
Net cash position:		
Held in trust for scholarships	\$ 11,047	
	<u>11,047</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

	<u>Private Purpose Trust</u>
Net cash position at beginning of year	<u>\$ 11,047</u>
Net cash position at end of year	<u><u>\$ 11,047</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

Northeastern Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Northeastern Local School District is a local school district as defined by §3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's three instructional/support facilities which are staffed by 52 noncertified and 76 certified part-time and full-time teaching personnel. The District's average daily membership for the fiscal year ended June 30, 2016 was 1,051 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 2.B., these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

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

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

JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Computer Association

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

The NWOCA Assembly consists of a superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elected the Council. NWOCA is governed by a Council chosen from two representatives from each of the six counties in which the member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control is exercised by any participating educational entity is limited to its representation on the Board. All payments made by the District for services rendered are made to the Northern Buckeye Education Council. Total disbursements made by the District to NWOCA during this fiscal year were \$86,488 for various services. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 209 Nolan Parkway, Archbold, Ohio 43502.

Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the six counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC during this fiscal year were \$250. To obtain financial information write to the Northern Buckeye Education Council, Robin Pfund, at 209 Nolan Parkway, Archbold, Ohio 43502.

Four County Career Center

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center and one representative from the participating school districts elected boards. The Four County Career Center possesses its own budgeting and taxing authority. Total disbursements made by the District to the Four County Career Center during this fiscal year were \$45,544. To obtain financial information write to the Four County Career Center, Connie Nicely, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

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

Northwestern Ohio Educational Research Council, Inc.

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials and provide opportunities for training.

The NOERC serves twenty-five county area of Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. The District paid \$200 to NOERC during this fiscal year. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., P.O. Box 456, Ashland, Ohio 44805.

GROUP PURCHASING POOLS

Employee Insurance Benefits Program

The District participates in a group health insurance pool through the Northern Buckeye Health Plan (NBHP), Northwest Division of Optimal Health Initiative Consortium (OHI) Insurance Benefits Program (the Plan). NBHP is a joint self-insurance arrangement created pursuant to the authority vested in Ohio Revised Code §9.833. The Plan is a public entity shared risk pool consisting of educational entities throughout the State. The Plan is governed by OHI and its participating members. Total disbursements made by the District to NBHP/OHI for employee insurance benefits during this fiscal year were \$1,094,639. Financial information can be obtained from Northern Buckeye Health Plan/OHI, Jenny Jostworth, Treasurer, at 10999 Reed Hartman Hwy., Suite 304E, Cincinnati, Ohio 45242.

Workers' Compensation Group Rating Plan

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

NBHP has retained Sheakley Uniservice as the servicing agent to perform administrative, actuarial, cost control, claims, and safety consulting services and unemployment claims services for program participants. The District did not make any payments to the WCGRP during this fiscal year.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

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

Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA), which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code - Non-Profit Corporations and functioning under authority granted by Section 2744.081 of the Ohio Revised Code. SORSA's purpose is to provide a joint self-insurance pool to assist member school districts in preventing and reducing losses and injuries to property and persons which might result in claims being made against members of SORSA, their employees or officers. The District paid \$75,540 for those services to SORSA during fiscal year 2016.

A nine-person Board of Directors manages the business and affairs of SORSA and is elected annually by the members of the pool. The Board of Directors consists of superintendents, treasurers, or business managers from the participating school districts. SORSA employs an Executive Director and a Member Services Coordinator to administer the pool while claims are processed by Avizent. Financial information can be obtained from SORSA at 8050 North High Street, Suite 160, Columbus, Ohio 43235 or by calling 866-767-7299.

B. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with GAAP, the District chooses to prepare its financial statements and notes on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than GAAP. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

Budgetary presentations report budgetary cash disbursements when a commitment is made (i.e. when an encumbrance is approved). The difference between disbursements reported in the fund and entity wide statements and disbursements reported in the budgetary statements are due to current year encumbrances being added to disbursements reported on the budgetary statements.

These statements include adequate disclosure of material matters, in accordance with the cash basis of accounting.

C. Fund Accounting

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

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The General Fund is the District's only major governmental fund.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

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

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

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net cash position and changes in net cash 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 cash assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for donated monies restricted to provide college scholarship assistance to District graduates. Agency funds are custodial in nature and do not involve measurement of results of operations. The District's agency funds account for student activities and OHSAA tournament monies.

D. Basis of Presentation

The government-wide Statement of Activities compares disbursements with program receipts for each function or program of the District's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the District. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the District.

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

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

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the alternate tax budget, the certificate of estimated resources, and the appropriation 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 cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the fund, function, object level within the General Fund and the fund, special cost center level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Budgetary allocations below these levels are made by the Treasurer.

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

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

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. Expenditures plus encumbrances may not legally exceed appropriations. Encumbrances at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and may be reported as restricted, committed, or assigned classifications of fund balance.

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be re-appropriated.

F. Cash and Investments

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

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

During fiscal year 2016, investments were limited to investments in federal agency securities, a money market mutual fund, negotiable certificates of deposit, and the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

The District has invested funds in STAR Ohio during fiscal year 2016. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2016.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2016 amounted to \$46,339, which includes \$4,675 assigned from other District funds.

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

G. Capital Assets

Acquisition of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements under the cash basis of accounting. Depreciation has not been reported for any capital assets.

H. Unpaid Vacation and Sick Leave

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

I. Long-Term Obligations

Bonds and other long-term obligations are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal payments.

J. Fund Cash Balance

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

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

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

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

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

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

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

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

K. Net Cash Position

Net cash position is reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use. The District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash position is available. The District did not have any assets restricted by enabling legislation at June 30, 2016.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

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

L. Interfund Activity

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

M. 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, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District does not have any restricted assets.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2016.

O. Pensions

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the District.

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

B. Compliance

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

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

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

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

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

Interim deposits 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 or by savings or deposit accounts including passbook accounts.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposits 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 items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain banker's acceptance and commercial paper notes for a period not to exceed one-hundred-eighty days and two-hundred-seventy days, respectively from the purchase date in an amount not to exceed forty percent of the interim monies available for investment at any one time; and,
9. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Cash on Hand

At fiscal year end, the District had \$100 in undeposited cash on hand which is included on the financial statements of the District as part of “equity in pooled cash and cash equivalents”.

B. Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all District deposits was \$4,682,149. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2016, \$3,756,727 of the District’s bank balance of \$4,759,988 was exposed to custodial risk as discussed below, while \$1,001,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

C. Investments

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

Investment Type	Balance at Carrying Value	Balance at Fair Value	Investment Maturities				
			6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
FHLMC	\$ 250,382	\$ 250,148	\$ -	\$ -	\$ -	\$ -	\$ 250,148
Negotiable CDs	2,829,388	2,862,480	200,406	250,710	65,371	251,078	2,094,915
STAR Ohio	172,044	172,044	172,044	-	-	-	-
U.S. Government money market mutual fund	20,250	20,250	20,250	-	-	-	-
Total	\$ 3,272,064	\$ 3,304,922	\$ 392,700	\$ 250,710	\$ 65,371	\$ 251,078	\$ 2,345,063

The weighted average maturity of investments is 2.66 years.

Interest Rate Risk: Interest rate risk is the risk potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The District has no investment policy that addresses interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District’s investment policy limits investment portfolio maturities to five years or less, unless matched to a specific obligation or

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

debt of the District and that an investment must be purchased with the expectation that it will be held until maturity.

Credit Risk: The U.S. Government money market mutual fund and STAR Ohio carry a rating of AAAm by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The District's investments in federal agency securities were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The District has no investment policy dealing with investment credit risk beyond the requirements in State statute.

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2016:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>% to Total</u>
FHLMC	\$ 250,382	7.65
Negotiable CDs	2,829,388	86.47
STAR Ohio	172,044	5.26
U.S. Government money market mutual fund	<u>20,250</u>	<u>0.62</u>
Total	<u>\$ 3,272,064</u>	<u>100.00</u>

D. Reconciliation of Cash to the Statement of Net Position

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Cash and Investments Per Note

Carrying amount of deposits	\$ 4,682,149
Investments	3,272,064
Cash on hand	<u>100</u>
Total	<u>\$ 7,954,313</u>

Cash and Investments per Statement of Net Position

Governmental Activities	\$ 7,913,790
Private Purpose Trust Fund	11,047
Agency Funds	<u>29,476</u>
Total	<u>\$ 7,954,313</u>

NOTE 5 - INTERFUND TRANSACTIONS

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

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Nonmajor governmental funds	General Fund	\$ 652

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers between governmental funds are eliminated on the government-wide financial statements.

NOTE 6 - PROPERTY TAXES

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES – (Continued)

Public utility real and tangible personal property taxes for 2016 were levied after April 1, 2015, on the assessed values as of December 31, 2014, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The District receives property taxes from Defiance 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.

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

	Half Collections		Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	\$ 209,450,510	77.08	\$ 212,673,070	76.87
Public utility personal	62,291,550	22.92	64,002,210	23.13
Total	\$ 271,742,060	100.00	\$ 276,675,280	100.00
Tax rate per \$1,000 of assessed valuation	48.79		46.35	

NOTE 7 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates in the Schools of Ohio Risk Sharing Authority, Inc. for insurance coverage.

Coverages provided are as follows:

Property Insurance	\$ 46,312,314
Equipment Breakdown	50,000,000
Automobile Liability	15,000,000
Wrongful Acts	15,000,000
Crime Coverage	100,000
General Liability:	
Per Occurrence	15,000,000
Total Per Year	17,000,000

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

NOTE 7 - RISK MANAGEMENT – (Continued)

B. Employee Insurance Benefits Program

The District participates in the Northern Buckeye Health Plan (NBHP) - Northwest Division of Optimal Health Initiative (OHI) Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties (See Note 2.A). The District pays monthly premiums to NBHP for the benefits offered to its employees, which includes health, dental, vision, and life insurance plans. Northern Buckeye Health Plan is responsible for the management and operations of the Program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

The District contributed a total of \$602,002 to Northern Buckeye Health Plan, Northwest Division of OHI for all employee insurance plans. Financial information for the period can be obtained from Jenny Jostworth, Treasurer, at 10999 Reed Hartman Highway, Suite 304E, Cincinnati, Ohio 45242.

C. Workers' Compensation Group Program

The District participates in the Northern Buckeye Health Plan - Northern Division of OHI (NBHP) Workers' Compensation Group Rating Plan (WCGRP), an insurance purchasing pool (see Note 2.A). The NBHP WCGRP is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the WCGRP. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. The WCGRP is governed by the Northern Buckeye Health Plan and the participating members of the WCGRP. The Executive Director of the NBHP coordinates the management and administration of the program.

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

NOTE 8 - PENSION PLANS

Net Pension Liability

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)

NOTE 8 - PENSION PLANS - (Continued)

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

NOTE 8 - PENSION PLANS - (Continued)

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

The District's contractually required contribution to SERS was \$204,419 for fiscal year 2016.

Plan Description - State Teachers Retirement System of Ohio (STRS Ohio)

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

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

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11 percent of the 12 percent member rate goes into the DC Plan and 1 percent goes to the DB 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.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

NOTE 8 - PENSION PLANS - (Continued)

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS Ohio plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS Ohio bearing the risk of investment gain or loss on the account. STRS Ohio 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 to 13 percent on July 1, 2015, and will be increased another one percent to 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS Ohio was \$617,948 for fiscal year 2016.

Net Pension Liability

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

	<u>SERS</u>	<u>STRS Ohio</u>	<u>Total</u>
Proportionate share of the net pension liability	\$2,646,687	\$11,421,740	\$14,068,427
Proportion of the net pension liability	0.0463835%	0.04132760%	

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.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

NOTE 8 - PENSION PLANS - (Continued)

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

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

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

Wage inflation	3.25 percent
Future salary increases, including inflation	4.00 percent to 22 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:

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

NOTE 8 - 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	<u>15.00</u>	7.50
Total	<u><u>100.00 %</u></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.

	<u>1% Decrease (6.75%)</u>	<u>Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$3,670,004	\$2,646,687	\$1,784,970

Changes Between Measurement Date and Report Date

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

NOTE 8 - PENSION PLANS - (Continued)

Actuarial Assumptions - STRS Ohio

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.

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 Ohio's investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
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 Ohio's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

NOTE 8 - PENSION PLANS - (Continued)

June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$15,865,658	\$11,421,740	\$7,663,744

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2016, three members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 9 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

NOTE 9 – POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no portion of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the District's surcharge obligation was \$22,801.

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

The District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016, 2015, and 2014 were \$23,208, \$37,385, and \$24,665, respectively. The full amount has been contributed for each of the last three fiscal years.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2016, this actuarially required allocation was 0.74 percent of covered payroll. The District's contributions for Medicare B for the fiscal years ended June 30, 2016, 2015, and 2014 were \$10,805, \$12,794, and \$12,921, respectively. The full amount has been contributed for fiscal years 2016, 2015, and 2014.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2016, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0, and \$45,169, respectively; 100 percent has been contributed for fiscal year 2014. The full amount has been contributed for fiscal years 2016, 2015, and 2014.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

NOTE 10 - COMPENSATED ABSENCES

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Clerical, Technical, and Maintenance and Operation employees with one or more years of service are entitled to vacation ranging from 10 to 20 days. Employees with less than one year of service earn no vacation. Employees are permitted to carry over vacation leave if approved by the Superintendent.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum of 60.25 days for certified employees and 60 days for non-certified employees.

NOTE 11 - LONG-TERM OBLIGATIONS

During fiscal year 2016, the following changes occurred in the District's long-term obligations:

	Balance Outstanding <u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2016</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
<u>General obligation bonds:</u>					
Series 2005					
Capital appreciation bonds	\$ 106,984	\$ -	\$ (58,200)	\$ 48,784	\$ 48,784
Accreted interest	559,847	55,984	(316,800)	299,031	299,031
Series 2015 refunding					
Current interest bonds	<u>4,105,000</u>	<u>-</u>	<u>(20,000)</u>	<u>4,085,000</u>	<u>30,000</u>
Total governmental activities	<u>\$ 4,771,831</u>	<u>\$ 55,984</u>	<u>\$ (395,000)</u>	<u>\$ 4,432,815</u>	<u>\$ 377,815</u>

Series 2005 General Obligation Bonds

The general obligation bonds were issued on May 11, 2005 for the purpose of school improvement refunding bonds. The issue was comprised of \$4,965,000 in current interest bonds and \$289,990 capital appreciation bonds.

Series 2015 Refunding General Obligation Bonds

On June 23, 2015, the District issued general obligation bonds to advance refund the outstanding Series 2005 current interest bonds. These bonds are general obligations of the District, for which its full faith and credit is pledged. The source of payment is derived from proceeds of a 4.14 mil bonded debt tax levy.

The issuance proceeds of \$4,046,950 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance). At June 30, 2016, \$4,085,000 of defeased debt was outstanding.

This issue was comprised of current interest bonds, par value \$4,105,000, bearing an annual interest rate of 2.18%. Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2026.

The scheduled payments of principal and interest on debt outstanding at June 30, 2016 are as follows:

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Fiscal Year Ending June 30	General Obligation Current Interest Bonds			General Obligation Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 30,000	\$ 88,726	\$ 118,726	\$ 48,784	\$ 326,216	\$ 375,000
2018	405,000	83,985	488,985	-	-	-
2019	415,000	75,047	490,047	-	-	-
2020	420,000	65,945	485,945	-	-	-
2021	435,000	56,626	491,626	-	-	-
2022 - 2026	2,330,000	134,835	2,464,835	-	-	-
2027	50,000	545	50,545	-	-	-
Total	<u>\$ 4,085,000</u>	<u>\$ 505,709</u>	<u>\$ 4,590,709</u>	<u>\$ 48,784</u>	<u>\$ 326,216</u>	<u>\$ 375,000</u>

Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The Code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The Code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2016, are a voted debt margin of \$21,114,434 (including available funds of \$300,321) and an unvoted debt margin of \$276,658.

NOTE 12 - SET-ASIDES

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

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

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

NOTE 12 - SET-ASIDES - (Continued)

	<u>Capital Improvements</u>
Set-aside balance June 30, 2015	\$ -
Current year set-aside requirement	200,876
Current year qualifying expenditures	(432,620)
Current year offsets	<u>(92,524)</u>
Total	<u>\$ (324,268)</u>
Balance carried forward to Fiscal Year 2017	<u>\$ -</u>

NOTE 13 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balance on the cash basis, 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 Cash Receipts, Disbursements and Change in Fund Balance - Budget and Actual - Budgetary Basis presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budgetary basis and the cash basis are that:

- (a) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of a disbursement, as opposed to assigned or committed fund balance (cash basis); and,
- (b) Some funds are included in the General Fund (cash basis), but have separate legally adopted budgets (budget basis).

The adjustments necessary to reconcile the budget basis statement to the cash basis statement are as follows:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 1,445,843
Net adjustment for expenditure	34,100
Net adjustment for other financing sources/uses	(34,100)
Funds budgeted elsewhere	12,055
Adjustment for encumbrances	<u>442,678</u>
Cash basis	<u>\$ 1,900,576</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the General Fund on a cash basis. This includes the Uniform School Supplies Fund and Public School Support Fund.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO**

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

NOTE 14 - OTHER COMMITMENTS

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General	\$ 449,546
Nonmajor governmental	<u>19,409</u>
Total	<u>\$ 468,955</u>

NOTE 15 - CONTINGENCIES

A. Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2016, if applicable, cannot be determined at this time.

B. Litigation

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

C. School District Funding

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

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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*

Northeastern Local School District
Defiance County
05751 Domersville Road
Defiance, Ohio 43512-6703

To the Board of Education:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Northeastern Local School District, Defiance 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 May 3, 2017, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Entity's Response to Findings

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

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

May 3, 2017

NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2016

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

FINDING NUMBER 2016-001

Noncompliance Citation

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

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

The District lacked a GASB 34 policy and therefore prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be reasonably determined at this time. The District can be fined and various other administrative remedies may be taken against the District.

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

Officials' Response:

Management believes reporting on a basis of accounting other than generally accepted accounting principles (GAAP) is more cost efficient.

**NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY**

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

Finding Number	Finding Summary	Status	Additional Information
2015-001	Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B) for not reporting financial statements on a Generally Accepted Accounting Principles (GAAP) basis.	Not corrected. Reissued as finding 2016-001 in this report.	This finding was reissued since management believes reporting on a basis of accounting other than generally accepted accounting principles (GAAP) is more cost efficient.



Dave Yost • Auditor of State

NORTHEASTERN LOCAL SCHOOL DISTRICT

DEFIANCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 23, 2017**