

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2016*

CHRISTINA WARRICK, TREASURER



Dave Yost • Auditor of State

Board of Education
South Central Local School District
3305 Greenwich Angling Road
Greenwich, Ohio 44837

We have reviewed the Independent Auditor's Report of the South Central Local School District, Huron County, prepared by Julian & Grube, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

March 16, 2017

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**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

South Central Local School District
Huron County
3305 Greenwich Angling Road
Greenwich, Ohio 44837

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the South Central Local School 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 South Central Local School District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2016, on our consideration of the South Central Local School 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 South Central Local School District's internal control over financial reporting and compliance.



Julian & Grube, Inc.
December 27, 2016

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

The management's discussion and analysis of the South Central 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. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2016 are as follows:

- In total, net position of governmental activities increased \$805,074 which represents a 15.89% increase from 2015.
- General revenues accounted for \$8,681,284 in revenue or 81.76% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,936,438 or 18.24% of total revenues of \$10,617,722.
- The District had 9,812,648 in expenses related to governmental activities; \$1,936,438 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$8,681,284 were adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$9,552,797 in revenues and \$8,785,950 in expenditures and other financing uses. During fiscal year 2016, the general fund's fund balance increased \$766,847 from a balance of \$2,138,780 to \$2,905,627.

Using the Basic Financial Statements (BFS)

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

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

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 all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

These two statements report the District's net position and changes in net position. This change in net position is important because it tells the reader that, for the District as a whole, the 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.

In the statement of net position and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance, pupil transportation, extracurricular activities, food service operations and interest and fiscal charges.

The District's statement of net position and statement of activities can be found on pages 14-15 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 10. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental fund is the general fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets than can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 16-20 of this report.

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. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 21 and 22. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

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. These notes to the basic financial statements can be found on pages 23-57 of this report.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability. The required supplementary information can be found on pages 58 through 64 of this report.

The District as a Whole

The table below provides a summary of the District's net position at June 30, 2016 and June 30, 2015.

	Net Position	
	Governmental Activities 2016	Governmental Activities 2015
	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Current and other assets	\$ 6,187,601	\$ 5,169,087
Capital assets, net	<u>5,135,187</u>	<u>5,393,678</u>
Total assets	<u>11,322,788</u>	<u>10,562,765</u>
<u>Deferred Outflows of Resources</u>		
Unamortized deferred charges on debt refunding	2,560	4,365
Pension	<u>1,256,576</u>	<u>775,070</u>
Total deferred outflows of resources	<u>1,259,136</u>	<u>779,435</u>
<u>Liabilities</u>		
Current liabilities	1,115,055	1,066,430
Long-term liabilities:		
Due within one year	252,197	290,392
Due in more than one year:		
Net pension liability	11,993,953	10,660,778
Other amounts	<u>939,634</u>	<u>1,158,158</u>
Total liabilities	<u>14,300,839</u>	<u>13,175,758</u>
<u>Deferred Inflows of Resources</u>		
Property taxes levied for next year	1,576,301	1,297,487
Pensions	<u>964,859</u>	<u>1,934,104</u>
Total deferred inflows of resources	<u>2,541,160</u>	<u>3,231,591</u>
<u>Net Position</u>		
Net investment in capital assets	4,705,750	4,751,505
Restricted	410,140	456,082
Unrestricted (deficit)	<u>(9,375,965)</u>	<u>(10,272,736)</u>
Total net position (deficit)	<u>\$ (4,260,075)</u>	<u>\$ (5,065,149)</u>

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

During 2015, the District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

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

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

In accordance with GASB 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

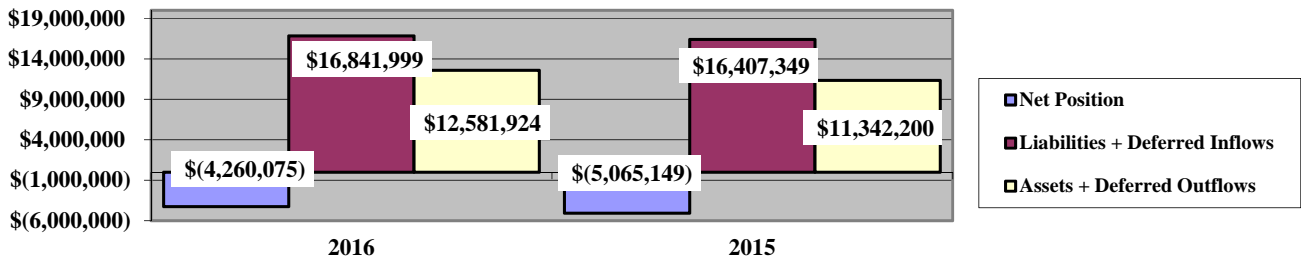
Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2016, the District's liabilities plus deferred inflows of resources exceeded assets plus deferred outflows of resources by \$4,260,075. At year end, unrestricted net position was a deficit of \$9,375,965.

At year-end, capital assets represented 45.35% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Net investment in capital assets at June 30, 2016 was \$4,705,750. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$410,140 represents resources that are subject to external restriction on how they may be used.

The graph below illustrates the District's governmental activities assets and deferred outflows of resources, liabilities and deferred inflows of resources and net position at June 30, 2016 and June 30, 2015.

Governmental Activities



The table below shows the change in net position for fiscal year 2016 compared to fiscal year 2015.

Change in Net Position

	Governmental Activities 2016	Governmental Activities 2015
Revenues		
Program revenues:		
Charges for services and sales	\$ 841,439	\$ 792,407
Operating grants and contributions	1,094,999	1,157,574
General revenues:		
Property taxes	1,768,786	1,759,412
School district income taxes	932,521	991,289
Grants and entitlements	5,921,696	5,089,839
Investment earnings	8,882	3,777
Miscellaneous	49,399	35,873
Total revenues	10,617,722	9,830,171

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

Change in Net Position

	Governmental Activities 2016	Governmental Activities 2015
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	3,997,756	4,083,413
Special	673,078	651,305
Vocational	138,864	110,963
Other	888,945	886,874
Support services:		
Pupil	383,548	351,971
Instructional staff	312,746	241,839
Board of education	104,735	84,514
Administration	796,261	736,075
Fiscal	277,785	210,723
Business	-	2,118
Operations and maintenance	894,062	788,882
Pupil transportation	569,750	633,666
Central	13,959	14,392
Operations of non-instructional services:		
Food service operations	381,051	371,679
Other non-instructional services	7,100	8,992
Extracurricular activities	356,254	360,963
Interest and fiscal charges	16,754	23,455
Total expenses	<u>9,812,648</u>	<u>9,561,824</u>
Change in net position	805,074	268,347
Net position (deficit) at beginning of year	<u>(5,065,149)</u>	<u>(5,333,496)</u>
Net position (deficit) at end of year	<u><u>\$ (4,260,075)</u></u>	<u><u>\$ (5,065,149)</u></u>

Governmental Activities

Net position of the District's governmental activities increased \$805,074. Total governmental expenses of \$9,812,648 were offset by program revenues of \$1,936,438 and general revenues of \$8,681,284. Program revenues supported 19.73% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and unrestricted grants and entitlements not restricted to specific programs. These revenue sources represent 72.43% of total governmental revenue.

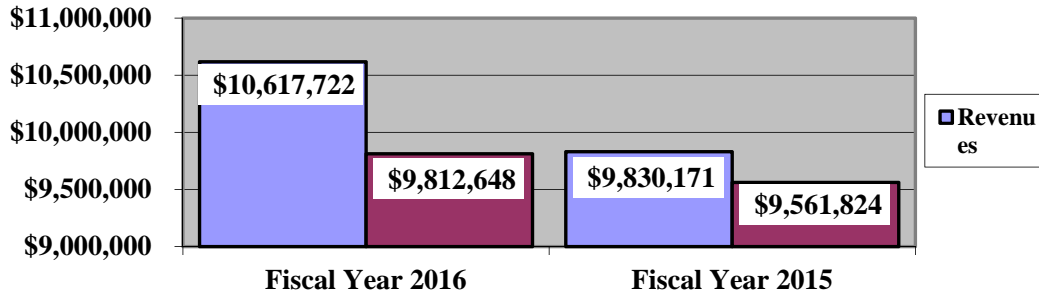
The largest expense of the District is for instructional programs. Instruction expenses totaled \$5,698,643 or 58.07% of total governmental expenses for fiscal year 2016.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2016 and 2015.

Governmental Activities - Revenues and Expenses



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 revenue, unrestricted State grants and entitlements, and other general revenues of the District.

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 expenses				
Instruction:				
Regular	\$ 3,997,756	\$ 3,282,110	\$ 4,083,413	\$ 3,405,047
Special	673,078	37,588	651,305	(34,814)
Vocational	138,864	110,176	110,963	69,090
Other	888,945	888,945	886,874	886,874
Support services:				
Pupil	383,548	373,564	351,971	340,664
Instructional staff	312,746	312,237	241,839	241,839
Board of education	104,735	104,735	84,514	84,514
Administration	796,261	796,261	736,075	730,115
Fiscal	277,785	277,785	210,723	210,723
Business	-	-	2,118	2,118
Operations and maintenance	894,062	894,062	788,882	788,882
Pupil transportation	569,750	538,228	633,666	597,313
Central	13,959	13,959	14,392	14,392
Operations of non-instructional services:				
Food service operations	381,051	44,124	371,679	24,788
Other non-instructional services	7,100	7,100	8,992	8,992
Extracurricular activities	356,254	178,582	360,963	217,851
Interest and fiscal charges	16,754	16,754	23,455	23,455
Total expenses	<u>\$ 9,812,648</u>	<u>\$ 7,876,210</u>	<u>\$ 9,561,824</u>	<u>\$ 7,611,843</u>

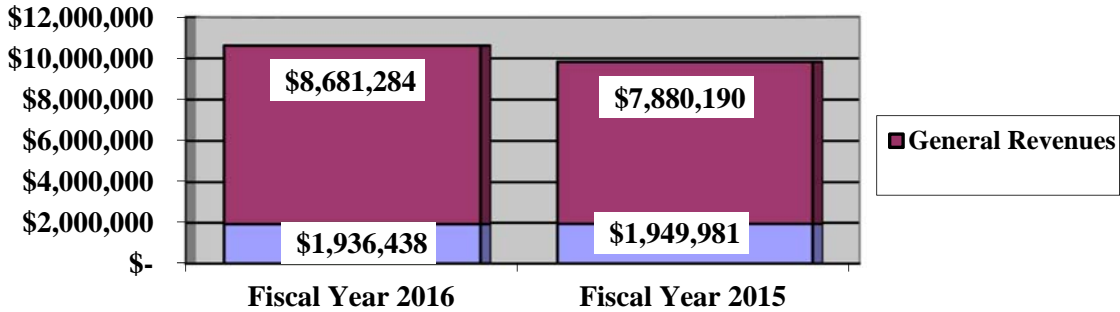
**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

The dependence upon tax and other general revenues for governmental activities is apparent, 75.79% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 80.27%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2016 and 2015.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$3,273,285 which is more than last year's fund balance of \$2,535,597. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2016 and 2015.

	Fund Balance <u>June 30, 2016</u>	Fund Balance <u>June 30, 2015</u>	Increase <u>(Decrease)</u>
General	\$ 2,905,627	\$ 2,138,780	\$ 766,847
Non-major governmental	<u>367,658</u>	<u>396,817</u>	<u>(29,159)</u>
Total	<u>\$ 3,273,285</u>	<u>\$ 2,535,597</u>	<u>\$ 737,688</u>

General Fund

The District's general fund balance increased \$766,847. The table that follows assists in illustrating the financial activities of the general fund.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

	<u>2016</u> <u>Amount</u>	<u>2015</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 2,558,578	\$ 2,583,358	(0.96) %
Tuition	534,417	506,549	5.50 %
Earnings on investments	8,242	3,488	136.30 %
Intergovernmental	6,350,215	5,520,859	15.02 %
Other revenues	<u>101,345</u>	<u>67,922</u>	49.21 %
Total	<u>\$ 9,552,797</u>	<u>\$ 8,682,176</u>	10.03 %
<u>Expenditures</u>			
Instruction	\$ 5,304,593	\$ 5,355,470	(0.95) %
Support services	3,099,750	2,981,152	3.98 %
Operation of non-instructional services	7,100	8,992	(21.04) %
Extracurricular activities	215,193	228,126	(5.67) %
Debt service	<u>109,344</u>	<u>85,343</u>	28.12 %
Total	<u>\$ 8,735,980</u>	<u>\$ 8,659,083</u>	0.89 %

Intergovernmental revenues increased 15.20% due to an increase in State Foundation funding. Other revenues increased 49.21% due to an increase in extracurricular and miscellaneous receipts.

Overall expenditures of the general fund increased \$76,897 or 0.89%. This increase is mainly attributable to the increase in support services of 3.98% and an increase in debt service expenditures of 28.12%. The District's increase in support services can be attributed to an increase operations and maintenance expenditures. The increase in debt service can be attributed to an extra principal payment being made on the energy conservation loan.

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, both original and final budgeted revenues were \$8,576,691. Actual revenues and other financing sources for fiscal year 2016 were \$9,631,977 which was \$1,055,286 greater than the final budget revenues.

General fund original appropriations of \$8,816,154 were increased to \$8,989,755 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2016 totaled \$8,986,778.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the District had \$5,135,187 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

The following table shows fiscal year 2016 balances compared to 2015 balances:

Capital Assets at June 30 (Net of Depreciation)		
<u>Governmental Activities</u>		
	<u>2016</u>	<u>2015</u>
Land	\$ 37,245	\$ 37,245
Land improvements	437,169	480,961
Buildings and improvements	4,437,734	4,585,020
Furniture and equipment	96,912	133,326
Vehicles	<u>126,127</u>	<u>157,126</u>
Total	<u>\$ 5,135,187</u>	<u>\$ 5,393,678</u>

The overall decrease in capital assets of \$258,491 is due to depreciation expense of \$258,491 for the fiscal year and no capital asset additions.

See Note 9 to the basic financial statements for additional information regarding the District's capital assets.

Debt Administration

At June 30, 2016, the District had \$325,000 in bonds, \$226,472 in loans, and \$94,485 in lease obligations outstanding. Of this total, \$235,290 is due within one year and \$410,667 is due in greater than one year. The following table summarizes the bonds outstanding:

Outstanding Debt, at Year End		
	<u>Governmental Activities 2016</u>	<u>Governmental Activities 2015</u>
Classroom facilities improvement bond	\$ 325,000	\$ 475,000
HB264 Loan - Energy conservation project	226,472	267,443
Lease obligations	<u>94,485</u>	<u>150,194</u>
Total	<u>\$ 645,957</u>	<u>\$ 892,637</u>

At June 30, 2016, the District's overall legal debt margin was \$8,728,587 with an unvoted debt margin of \$97,156. See Note 11 for details of the District's long-term obligations.

Current Financial Related Activities

The District has been able to use a very conservative financial approach. The District operates at the 20 mill floor and has an inside millage rate of 4.5. The District does benefit from a 1.25% income tax that was passed in 1992 and is for a continuing period of time. There have been no requests for new operating levies by the District to its voters since 1992.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

The Board and administration closely monitor expenditures to stay in line with the five-year financial forecast. Cuts to operating budgets and attrition in staffing throughout the District have been implemented during the past years to avoid the need to seek additional money from the community. Rising health care insurance costs, operating costs, teachers' salary increases and inconsistencies in the State legislature's funding for schools have made the "balancing act" a difficult one.

The Board and the administration have continued to monitor the State funding issue for schools. The District has experienced decreased enrollment over the past few years. Another factor of student enrollment that has effected school funding is an increase in the number of students that are attending the vocational school students leaving the district due to open enrollment, and those attending online public "charter or community" schools.

The District continues to closely monitor revenues. The income tax revenues have begun to improve and are showing increases but have not reached pre-recession levels. The District does not have a permanent improvement levy and must use general fund dollars to fund major capital improvements. The goal of the District remains to provide the best possible education for the dollars available.

The District relies on property taxes, entitlements and grants. Property Tax revenues have increased slightly due to a change in the Current Agricultural Use Value (CAUV) valuations. The reimbursement of the Tangible Property Tax was completely phased out by fiscal year 2013 instead of phasing out over the years until fiscal year 2017. Federal grants are decreasing. Expenditures are increasing. The majority of the tax revenue is derived from real estate and farming. The District is mainly rural and has a very small industrial base. After the end of fiscal year 2013, the District initiated a reduction in force to help reduce deficit spending. This included three teachers, five bus drivers, one custodian and one aide. Various supplementals were also suspended.

The reduction generated \$600,000 in savings. The District also went to a two tier start time that eliminated the daily use of 6 buses and started to use a bus routing software to make routes more efficient.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Mrs. Christina Warrick, Treasurer of South Central Local School District at 3305 Greenwich Angling Road, Greenwich, Ohio 44837.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
Assets:	
Equity in pooled cash and investments.	\$ 3,763,000
Receivables:	
Property taxes	1,982,319
Income taxes.	338,177
Accrued interest	741
Intergovernmental	87,671
Prepayments	2,335
Materials and supplies inventory.	9,704
Inventory held for resale.	3,654
Capital assets:	
Nondepreciable capital assets	37,245
Depreciable capital assets, net.	5,097,942
Capital assets, net	5,135,187
Total assets.	11,322,788
 Deferred outflows of resources:	
Unamortized deferred charges on debt refunding	2,560
Pension - STRS	997,324
Pension - SERS	259,252
Total deferred outflows of resources	1,259,136
 Liabilities:	
Accounts payable.	102,971
Accrued wages and benefits payable	817,872
Intergovernmental payable	54,495
Pension and postemployment benefits payable.	136,934
Accrued interest payable	2,783
Long-term liabilities:	
Due within one year.	252,197
Due in more than one year:	
Net pension liability (See Note 14)	11,993,953
Other amounts due in more than one year	939,634
Total liabilities	14,300,839
 Deferred inflows of resources:	
Property taxes levied for the next fiscal year.	1,576,301
Pension - STRS.	909,699
Pension - SERS.	55,160
Total deferred inflows of resources	2,541,160
 Net position:	
Net investment in capital assets	4,705,750
Restricted for:	
Classroom facilities maintenance	77,519
Debt service.	313,763
State funded programs.	929
Student activities	17,929
Unrestricted (deficit)	(9,375,965)
Total net position (deficit).	\$ (4,260,075)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 3,997,756	\$ 538,542	\$ 177,104	\$ (3,282,110)
Special	673,078	8,653	626,837	(37,588)
Vocational	138,864	-	28,688	(110,176)
Other	888,945	-	-	(888,945)
Support services:				
Pupil	383,548	-	9,984	(373,564)
Instructional staff	312,746	-	509	(312,237)
Board of education	104,735	-	-	(104,735)
Administration	796,261	-	-	(796,261)
Fiscal	277,785	-	-	(277,785)
Operations and maintenance	894,062	-	-	(894,062)
Pupil transportation	569,750	-	31,522	(538,228)
Central	13,959	-	-	(13,959)
Operation of non-instructional services:				
Other non-instructional services	7,100	-	-	(7,100)
Food service operations	381,051	117,572	219,355	(44,124)
Extracurricular activities	356,254	176,672	1,000	(178,582)
Interest and fiscal charges	16,754	-	-	(16,754)
Total governmental activities	\$ 9,812,648	\$ 841,439	\$ 1,094,999	(7,876,210)
		General revenues:		
		Property taxes levied for:		
		General purposes		1,626,921
		Debt service		115,112
		Special revenue		26,753
		Income taxes levied for:		
		General purposes		932,521
		Grants and entitlements not restricted to specific programs		5,921,696
		Investment earnings		8,882
		Miscellaneous		49,399
		Total general revenues		8,681,284
		Change in net position		805,074
		Net position (deficit) at beginning of year		(5,065,149)
		Net position (deficit) at end of year		\$ (4,260,075)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and investments	\$ 3,376,801	\$ 386,199	\$ 3,763,000
Receivables:			
Property taxes	1,831,145	151,174	1,982,319
Income taxes	338,177	-	338,177
Accrued interest	741	-	741
Interfund loans	1,465	-	1,465
Intergovernmental	44,891	42,780	87,671
Prepayments	2,335	-	2,335
Materials and supplies inventory	8,886	818	9,704
Inventory held for resale	-	3,654	3,654
Total assets	<u>\$ 5,604,441</u>	<u>\$ 584,625</u>	<u>\$ 6,189,066</u>
Liabilities:			
Accounts payable	\$ 98,633	\$ 4,338	\$ 102,971
Accrued wages and benefits payable	739,108	78,764	817,872
Compensated absences payable	6,754	-	6,754
Intergovernmental payable	53,447	1,048	54,495
Pension and postemployment benefits payable	133,994	2,940	136,934
Interfund loans payable	-	1,465	1,465
Total liabilities	<u>1,031,936</u>	<u>88,555</u>	<u>1,120,491</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year	1,456,509	119,792	1,576,301
Delinquent property tax revenue not available	100,906	8,620	109,526
Income tax revenue not available	74,099	-	74,099
Intergovernmental revenue not available	35,364	-	35,364
Total deferred inflows of resources	<u>1,666,878</u>	<u>128,412</u>	<u>1,795,290</u>
Fund balances:			
Nonspendable:			
Materials and supplies inventory	8,886	818	9,704
Prepays	2,335	-	2,335
Restricted:			
Debt service	-	309,550	309,550
Classroom facilities maintenance	-	75,895	75,895
Other purposes	-	929	929
Extracurricular activities	-	17,929	17,929
Assigned:			
Student instruction	70,301	-	70,301
Student and staff support	106,067	-	106,067
Extracurricular activities	250	-	250
Unassigned (deficit)	2,717,788	(37,463)	2,680,325
Total fund balances	<u>2,905,627</u>	<u>367,658</u>	<u>3,273,285</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 5,604,441</u>	<u>\$ 584,625</u>	<u>\$ 6,189,066</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

Total governmental fund balances		\$	3,273,285
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			5,135,187
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	109,526	
Income taxes receivable		74,099	
Intergovernmental receivable		35,364	
Total		218,989	218,989
Unamortized premiums on bonds issued are not recognized in the funds.			(12,512)
Unamortized amounts on refundings are not recognized in the funds.			2,560
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(2,783)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:			
Deferred outflows of resources - pension		1,256,576	
Deferred inflows of resources - pension		(964,859)	
Net pension liability		(11,993,953)	
Total		(11,702,236)	(11,702,236)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(325,000)	
Energy conservation loan		(226,472)	
Capital lease obligations		(94,485)	
Compensated absences		(526,608)	
Total		(1,172,565)	(1,172,565)
Net position of governmental activities		\$	(4,260,075)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Property taxes	\$ 1,628,136	\$ 144,786	\$ 1,772,922
Income taxes	930,442	-	930,442
Tuition	534,417	-	534,417
Earnings on investments	8,242	640	8,882
Charges for services	-	117,572	117,572
Extracurricular	39,168	137,504	176,672
Classroom materials and fees	12,778	-	12,778
Contributions and donations	13,095	1,000	14,095
Other local revenues	36,304	-	36,304
Intergovernmental - state	6,350,215	34,041	6,384,256
Intergovernmental - federal	-	626,581	626,581
Total revenues	<u>9,552,797</u>	<u>1,062,124</u>	<u>10,614,921</u>
Expenditures:			
Current:			
Instruction:			
Regular	3,807,690	185,661	3,993,351
Special	472,010	211,068	683,078
Vocational	135,948	4,380	140,328
Other	888,945	-	888,945
Support services:			
Pupil	377,340	9,950	387,290
Instructional staff	316,193	577	316,770
Board of education	104,897	-	104,897
Administration	800,386	-	800,386
Fiscal	282,258	3,780	286,038
Operations and maintenance	679,036	40,221	719,257
Pupil transportation	525,681	1,921	527,602
Central	13,959	-	13,959
Operation of non-instructional services:			
Other operation of non-instructional	7,100	-	7,100
Food service operations	-	378,154	378,154
Extracurricular activities	215,193	143,316	358,509
Debt service:			
Principal retirement	96,680	150,000	246,680
Interest and fiscal charges	12,664	12,225	24,889
Total expenditures	<u>8,735,980</u>	<u>1,141,253</u>	<u>9,877,233</u>
Excess (deficiency) of revenues over (under) expenditures	<u>816,817</u>	<u>(79,129)</u>	<u>737,688</u>
Other financing sources (uses):			
Transfers in	-	49,970	49,970
Transfers (out)	<u>(49,970)</u>	<u>-</u>	<u>(49,970)</u>
Total other financing sources (uses)	<u>(49,970)</u>	<u>49,970</u>	<u>-</u>
Net change in fund balances	766,847	(29,159)	737,688
Fund balances at beginning of year	<u>2,138,780</u>	<u>396,817</u>	<u>2,535,597</u>
Fund balances at end of year	<u>\$ 2,905,627</u>	<u>\$ 367,658</u>	<u>\$ 3,273,285</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

Net change in fund balances - total governmental funds	\$	737,688
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Current year depreciation	\$ (258,491)	
Total		(258,491)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(4,136)	
Income taxes	2,079	
Intergovernmental	4,858	
Total		2,801
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. Principal payments during the year were:		
Bonds	150,000	
Loans	40,971	
Capital leases	55,709	
Total		246,680
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
Decrease in accrued interest payable	1,108	
Amortization of bond premiums	8,832	
Amortization of deferred charges	(1,805)	
Total		8,135
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		699,076
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(581,500)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(49,315)
Change in net position of governmental activities	\$	805,074

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Property taxes	\$ 1,430,000	\$ 1,430,000	\$ 1,643,405	\$ 213,405
Income taxes.	1,000,000	1,000,000	1,005,182	5,182
Tuition.	667,500	667,500	534,417	(133,083)
Earnings on investments	1,991	1,991	7,918	5,927
Classroom materials and fees	13,500	13,500	12,778	(722)
Other local revenues	24,000	24,000	36,305	12,305
Intergovernmental - state	5,439,700	5,439,700	6,378,686	938,986
Total revenues	<u>8,576,691</u>	<u>8,576,691</u>	<u>9,618,691</u>	<u>1,042,000</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,621,427	3,133,986	3,936,568	(802,582)
Special.	435,870	400,000	468,871	(68,871)
Vocational.	125,329	115,015	138,026	(23,011)
Other.	982,582	901,721	896,993	4,728
Support services:				
Pupil.	388,110	356,171	382,198	(26,027)
Instructional staff	283,315	260,000	317,182	(57,182)
Board of education	99,720	91,514	97,975	(6,461)
Administration.	810,918	744,184	795,663	(51,479)
Fiscal	329,058	400,390	287,044	113,346
Operations and maintenance.	718,711	1,334,044	738,178	595,866
Pupil transportation	688,684	714,393	588,812	125,581
Central.	16,345	16,397	14,020	2,377
Extracurricular activities.	246,570	419,395	222,703	196,692
Facilities acquisition and construction	29,514	51,110	51,110	-
Total expenditures	<u>8,776,153</u>	<u>8,938,320</u>	<u>8,935,343</u>	<u>2,977</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(199,462)</u>	<u>(361,629)</u>	<u>683,348</u>	<u>1,044,977</u>
Other financing sources (uses):				
Refund of prior year's expenditures	-	-	13,286	13,286
Transfers (out).	(40,000)	(49,970)	(49,970)	-
Advances (out)	-	(1,465)	(1,465)	-
Total other financing sources (uses)	<u>(40,000)</u>	<u>(51,435)</u>	<u>(38,149)</u>	<u>13,286</u>
Net change in fund balance	(239,462)	(413,064)	645,199	1,058,263
Fund balance at beginning of year	2,356,477	2,356,477	2,356,477	-
Prior year encumbrances appropriated	116,154	116,154	116,154	-
Fund balance at end of year	<u>\$ 2,233,169</u>	<u>\$ 2,059,567</u>	<u>\$ 3,117,830</u>	<u>\$ 1,058,263</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and investments	\$ 10,705	\$ 26,554
Liabilities:		
Accounts payable.	-	\$ 702
Due to students.	-	25,852
Total liabilities	-	\$ 26,554
Net position:		
Held in trust for scholarships	10,705	
Total net position.	\$ 10,705	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 25
Total additions.	25
 Deductions:	
Scholarships awarded	2,264
Change in net position	(2,239)
Net position at beginning of year.	12,944
Net position at end of year	\$ 10,705

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The South Central Local School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members and is responsible for the provision of public education to residents of the District. The District provides educational services as authorized by State statute and/or Federal guidelines.

The District is located in rural Huron County, and encompasses the communities of Greenwich and North Fairfield. It is staffed by 35 classified employees and 63 certified teaching personnel and 10 administrators who provide services to approximately 808 students and other community members. The District currently operates an elementary/middle school and a high school.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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).

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

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

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

JOINTLY GOVERNED ORGANIZATION

Northern Ohio Educational Computer Association (NOECA)

The District is a participant in the Northern Ohio Educational Computer Association (NOECA), which is a computer consortium. NOECA is an association of various public school districts formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. Financial information can be obtained by contacting NOECA's fiscal agent, the North Point Educational Service Center, Matt Bauer, who serves as Controller, at 1210 East Bogart Road, Sandusky, Ohio 44870.

INSURANCE PURCHASING POOLS

Workers' Compensation Group Rating Program

The District participates in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Program (GRP). The GRP is sponsored by OASBO and administered by CompManagement, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The District pays a fee to the GRP to cover the costs of administering the program.

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association (Association) is a public entity risk pool comprised of 14 districts. The Association assembly consists of a superintendent or designated representative from each participating district and the program administrator. The Association is governed by a Board of Directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the Board. Financial information can be obtained by contacting the program administrator at the Huron-Erie School Employees Insurance Association, located at 1210 East Bogart Road, Sandusky, Ohio 44870.

B. 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. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets plus deferred outflows of resources and liabilities plus deferred inflows of resources are reported as fund balance.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

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

The following is the District's 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.

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

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

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

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

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.

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from income taxes is recognized in the fiscal year in which the underlying exchange transaction occurred (See Note 8).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

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

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, deferred outflows of resources have been reported for the following two items related the District's net pension liability: (1) the difference between expected and actual experience of the pension systems, and (2) the District's contributions to the pension systems subsequent to the measurement date. In addition, deferred outflows of resources include a deferred charge on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable revenue includes, but is not limited to, delinquent property taxes, income taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

The District also reports a deferred inflow of resources for the net difference between projected and actual earnings on pension plan investments related to the District's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds except agency funds. The specific timetable for fiscal year 2016 is as follows:

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

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

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Huron County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final certificate of estimated resources issued for fiscal year 2016.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Although the legal level of budgetary control was established at the fund level of expenditures for the general fund, the District has elected to present its respective budgetary statement comparison at the fund and function level of expenditures.

Advances-in and advances-out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2016. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

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

8. Unencumbered appropriations lapse at fiscal year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the legal level of budgetary control.

F. Cash and Investments

To improve cash management, cash received by the District is pooled. 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 investments" on the basic financial statements.

During fiscal year 2016, investments were limited to 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. Nonparticipating investment contracts, such as non-negotiable certificates of deposit, are reported at cost.

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 or by policy of the Board of Education. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$8,242 which includes \$517 assigned from other 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.

An analysis of the District's investment account at year end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

Inventory consists of expendable supplies held for consumption, donated food and purchased food. On the fund financial statements, reported material and supplies inventory is equally offset by a nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

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

H. Capital Assets

Capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds and the related assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Interest incurred during the construction of capital assets is also capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. The District maintains a capitalization threshold of \$5,000.

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the useful lives of the respective assets, which range between 5 and 50 years.

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans from the general fund to cover negative cash balances in other governmental funds are classified as "interfund loans payable/receivable". These amounts are eliminated in the governmental type activities columns on the statement of net position.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2016, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees age fifty with at least ten years of service and all employees with at least twenty years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2016 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

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

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Fund Balance

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

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. It also includes the long-term amount of loans receivable.

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.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

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

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 expenditures 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 expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District had no amounts restricted by enabling legislation.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year end, because prepayments are not available to finance future governmental fund expenditures, a nonspendable fund balance is recorded by an amount equal to the carrying value of the asset on the fund financial statements.

O. Estimates

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

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

P. 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.

Q. Unamortized Bond Premium and Discount/Issuance Costs/Unamortized Accounting Gain or Loss

Bond premiums are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds.

On fund financial statements and the government wide financial statements, issuance costs are expensed in the fiscal year they occur.

For bond refundings resulting in the defeasance of debt reported in the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a deferred outflow of resources.

On the governmental fund financial statements, bond issuance costs and bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 11.A.

R. Budget Stabilization Arrangement

The District has established a budget stabilization reserve in accordance with authority established by State law. Additions to the budget stabilization reserve can only be made by formal resolution of the Board of Education. Expenditures out of the budget stabilization reserve can only be made to offset future budget deficits. At June 30, 2016, the balance in the budget stabilization reserve was \$653,744. This amount is included in unassigned fund balance of the general fund and in unrestricted net position on the statement of net position.

S. Pensions

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

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

T. 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.

U. Fair Value

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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.

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.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2016 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Food Service	\$ 28,086
Vocational Education Enhancement	1,464
Race to the Top	1,049
IDEA Part B	3,063
Title I	2,322
Improving Teacher Quality	661

The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

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 must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies 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;

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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. 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;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one-hundred-eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. 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.

A. Cash on Hand

At fiscal year end, the District had \$5,140 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and investments".

B. Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all District deposits was \$2,203,711. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2016, \$965,203 of the District's bank balance of \$2,221,183 was exposed to custodial risk as discussed below, while \$1,255,980 was covered by the FDIC.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> <u>6 months or less</u>
STAR Ohio	<u>\$ 1,591,408</u>	<u>\$ 1,591,408</u>

The District's investments in STAR Ohio are valued at the daily redemption value as reported by the underlying fund (Level 1 inputs).

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.

Credit Risk: STAR Ohio carries 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 rating service. The District's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by the State statute.

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>Fair Value</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 1,591,408</u>	<u>100.00</u>

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Reconciliation of Cash and Investments to the Statement of Net Position

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

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 2,203,711
Investments	1,591,408
Cash on hand	<u>5,140</u>
Total	<u>\$ 3,800,259</u>
<u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 3,763,000
Private-purpose trust fund	10,705
Agency fund	<u>26,554</u>
Total	<u>\$ 3,800,259</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances for the year ended June 30, 2016, consisted of the following interfund payables/receivables, as reported on the fund financial statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental fund	<u>\$ 1,465</u>

The primary purpose of the interfund balances is to cover negative cash balances in the governmental funds. These negative cash balances are not allowable as they do not meet the criteria of Ohio Revised Code Section 3315.20(A). These interfund balances are expected to be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

B. Interfund transfers consisted of the following at June 30, 2016, as reported on the fund statements:

<u>Transfers from</u>	<u>Transfers to</u>	<u>Amount</u>
General fund	Nonmajor governmental fund	<u>\$ 49,970</u>

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.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

All transfers made in fiscal year 2016 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

Interfund transfers between governmental funds are eliminated on the government-wide statement of activities.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed values as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2016 represent the collection of calendar year 2015 taxes. Public utility real and personal property taxes received in calendar year 2016 became a lien on December 31, 2014, were levied after April 1, 2015, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Huron and Richland Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available as an advance at June 30, 2016 was \$273,730 in the general fund, \$18,484 in the debt service fund (a nonmajor governmental fund) and \$4,278 in the classroom facilities maintenance fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2015 was \$289,000 in the general fund, \$27,294 in the debt service fund (a nonmajor governmental fund) and \$5,201 in the classroom facilities maintenance fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2016 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been reported as a deferred inflow.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES - (Continued)

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

	2015 Second Half Collections		2016 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 80,653,340	97.19	\$ 94,415,180	97.18
Public utility personal	<u>2,327,970</u>	<u>2.81</u>	<u>2,740,790</u>	<u>2.82</u>
Total	<u>\$ 82,981,310</u>	<u>100.00</u>	<u>\$ 97,155,970</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$36.90		\$36.40	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2016 consist of property taxes, income taxes, accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net position follows:

Governmental activities:

Property taxes	\$ 1,982,319
Income taxes	338,177
Accrued interest	741
Intergovernmental	<u>87,671</u>
Total	<u>\$ 2,408,908</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year.

NOTE 8 - INCOME TAXES

The District levies a voted income tax of 1.25 percent on the income of residents and on estates for general operations of the District. The income tax became effective on January 1, 1991 and is a continuing tax. Employers of residents are required to withhold income tax on employee compensation and then remit that income tax to the State, and taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund and amounted to \$930,442 for fiscal year 2016.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 9 - CAPITAL ASSETS

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

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 37,245	\$ -	\$ -	\$ 37,245
Total capital assets, not being depreciated	<u>37,245</u>	<u>-</u>	<u>-</u>	<u>37,245</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	961,128	-	-	961,128
Buildings and improvements	8,067,592	-	-	8,067,592
Furniture and equipment	541,971	-	-	541,971
Vehicles	<u>1,256,026</u>	<u>-</u>	<u>-</u>	<u>1,256,026</u>
Total depreciable capital assets	<u>10,826,717</u>	<u>-</u>	<u>-</u>	<u>10,826,717</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(480,167)	(43,792)	-	(523,959)
Buildings and improvements	(3,482,572)	(147,286)	-	(3,629,858)
Furniture and equipment	(408,645)	(36,414)	-	(445,059)
Vehicles	<u>(1,098,900)</u>	<u>(30,999)</u>	<u>-</u>	<u>(1,129,899)</u>
Total accumulated depreciation	<u>(5,470,284)</u>	<u>(258,491)</u>	<u>-</u>	<u>(5,728,775)</u>
Governmental activities capital assets, net	<u>\$ 5,393,678</u>	<u>\$ (258,491)</u>	<u>\$ -</u>	<u>\$ 5,135,187</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 21,830
Vocational	664

Support services:

Administration	2,268
Operations and maintenance	183,554
Pupil transportation	38,310
Extracurricular activities	1,643
Food service operations	<u>10,222</u>
Total depreciation expense	<u>\$ 258,491</u>

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior years, the District entered into capital leases for buses and copier equipment. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds and as a reduction to the liability for the principal portion on the government-wide financial statements. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of vehicles and equipment have been capitalized in the amount of \$283,014. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net position. Principal and interest payments in the 2016 fiscal year totaled \$55,709 and \$4,610, respectively, paid by the general fund. Accumulated depreciation on the capital assets acquired under the leases at June 30, 2016 was \$134,945, leaving a book value of \$148,069.

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

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Amount</u>
2017	\$ 60,319
2018	<u>37,562</u>
Total minimum lease payments	97,881
Less: Amount representing interest	<u>(3,396)</u>
Total	<u>\$ 94,485</u>

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 11 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2016, the following activity occurred in governmental activities long-term obligations.

	Balance			Balance	Amounts
	June 30, 2015	Additions	Reductions	Outstanding	Due in
				June 30, 2016	One Year
Governmental activities:					
Classroom facilities					
improvement refunding bonds	\$ 475,000	\$ -	\$ (150,000)	\$ 325,000	\$ 160,000
HB 264 loan - Energy					
conservation project	267,443	-	(40,971)	226,472	17,525
Capital leases payable	150,194	-	(55,709)	94,485	57,765
Net pension liability	10,660,778	1,333,175	-	11,993,953	-
Compensated absences	534,569	115,033	(116,240)	533,362	16,907
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total governmental activities					
Long-term obligations	<u>\$ 12,087,984</u>	<u>\$ 1,448,208</u>	<u>\$ (362,920)</u>	13,173,272	<u>\$ 252,197</u>
Add: unamortized premium					
on bond issuance				<u>12,512</u>	
Total on statement of net position				<u>\$ 13,185,784</u>	

Compensated absences: Compensated absences will be paid from the fund from which the employees' salaries are paid, which consists of the general fund and food service fund.

Capital leases payable: The capital leases will be paid from the general fund (See Note 10).

Net pension liability: See Note 14 for details.

Series 2009 classroom facilities improvement refunding bonds

On February 4, 2009, the District issued series 2009 general obligation refunding bonds to refund the callable portion of the series 1996 current interest term bonds (principal \$1,015,000). Issuance proceeds totaling \$1,030,947 were deposited with an escrow agent and 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) and accordingly, has been removed from the statement of net position.

The refunding issue was comprised of both current interest bonds, par value \$935,000 and a capital appreciation bond, par value \$64,999. The interest rate on the current interest bonds ranges from 2.50-3.25%. The capital appreciation bond matured December 1, 2012.

Interest payments on the current interest bonds are due on June 1 and December 1 each year. The final maturity stated in the issue is December 1, 2017. The payments are made from the debt service fund (a nonmajor governmental fund).

The reacquisition price exceeded the net carrying amount of the old debt by \$15,947. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the future debt service requirements to maturity for the Series 2009 refunding bonds:

Fiscal Year Ending June 30,	Current Interest Bonds		
	Principal	Interest	Total
2017	\$ 160,000	\$ 7,762	\$ 167,762
2018	165,000	2,681	167,681
Total	<u>\$ 325,000</u>	<u>\$ 10,443</u>	<u>\$ 335,443</u>

Energy Conservation Loan

On July 7, 2013, the District obtained a \$291,062 loan for energy improvements to all existing buildings. The improvements are not capitalized; therefore, the loan is not included in the net investment in capital assets calculation. The loan bears an interest rate of 3.05%. The loan was issued for a 15 year period, with final maturity on June 7, 2028. The loan is being retired from the general fund.

The following is a summary of the future annual requirements to maturity for energy conservation bonds:

Fiscal Year Ending June 30,	Energy Conservation Bonds		
	Principal	Interest	Total
2017	\$ 17,525	\$ 7,499	\$ 25,024
2018	18,075	6,949	25,024
2019	18,642	6,382	25,024
2020	19,211	5,813	25,024
2021	19,829	5,195	25,024
2022 - 2026	108,864	16,256	125,120
2027 - 2028	<u>24,326</u>	<u>1,569</u>	<u>25,895</u>
Total	<u>\$ 226,472</u>	<u>\$ 49,663</u>	<u>\$ 276,135</u>

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

B. 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 \$8,728,587 (including available funds of \$309,550) and an unvoted debt margin of \$97,156.

NOTE 12 - COMPENSATED ABSENCES

The criteria for determining vested vacation and sick leave components are derived from Board policy, negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per year, depending upon the length of service. School support personnel accumulate vacation based upon the length of service as follows:

<u>Length of Service</u>	<u>Vacation Leave</u>
After 11 Months	5 Days
13 to 84 Months	10 Days
7-15 Years	15 Days
15-20 Years	20 Days
20-25 Years	25 Days

Vacation Pay: A support staff employee may accrue vacation leave over a period of two years. The employee may be paid for the unused portion of the vacation annually. Upon separation from employment the employee may be compensated for unused vacation accrued during the two years prior to their separation.

Sick Leave: Each employee receives 15 sick leave days per year and each employee can earn a maximum of 240 days. An employee may be compensated for unused sick leave based upon a set percentage which gives consideration for length of service.

NOTE 13 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and natural disasters.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 13 - RISK MANAGEMENT - (Continued)

The District maintains comprehensive insurance coverage with Ohio School Plan as authorized by Ohio Revised Code 2744.081 for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 100% coinsured.

Fleet and property/casualty insurance are purchased through Ohio School Plan. Settled claims resulting from these risks have not exceeded coverage in any of the prior three fiscal years. Also, coverages have not been materially reduced from prior fiscal years.

B. Health Benefits

The District joined together with other area school districts to form the Huron-Erie School Employees Insurance Association, a public entity risk management and employee health benefits program for 13 member school districts. The District pays a monthly premium to the pool for health, dental and prescription coverage. The agreement for formation of the pool provides that it will be self-sustaining through member premiums, and the pool will purchase stop-loss insurance policies through commercial companies to cover claims in excess of \$400,000 for any employee.

In the event of withdrawal, the District shall assume and be responsible for payment of all claims of its eligible employees, families and dependents from the effective date of withdrawal, regardless of when such claims were incurred, processed, or presented to the Association, insurance provider, insurance consultant, or any other appropriate or authorized person or representative; provided further, any such claims, which are paid after the effective date of withdrawal by the Association insurance provider or insurance consultant, or charged to such parties, shall be reimbursed in full by any withdrawing member upon demand of the Association.

C. Workers Compensation

The District participates in the OASBO/CompManagement, Inc. Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is tiered into groups based upon past workers' compensation experience. Within each tiered group, a common premium rate is applied to all school districts within that group. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of their tiered group. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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.

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

Plan Description - School Employees Retirement System (SERS)

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the entire 14 percent was allocated to pension, death benefits, and Medicare B and no portion of the employer contribution rate was allocated to the Health Care Fund.

The District’s contractually required contribution to SERS was \$158,722 for fiscal year 2016. Of this amount, \$25,888 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 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 was \$540,354 for fiscal year 2016. Of this amount, \$90,812 is reported as pension and postemployment benefits payable.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 1,998,737	\$ 9,995,216	\$ 11,993,953
Proportion of the net pension liability	0.03502810%	0.03616597%	
Pension expense	\$ 151,846	\$ 429,654	\$ 581,500

At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 31,640	\$ 456,970	\$ 488,610
Changes in proportionate share	68,890	-	68,890
District contributions subsequent to the measurement date	<u>158,722</u>	<u>540,354</u>	<u>699,076</u>
Total deferred outflows of resources	<u>\$ 259,252</u>	<u>\$ 997,324</u>	<u>\$ 1,256,576</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 55,160	\$ 744,113	\$ 799,273
Changes in proportionate share	<u>-</u>	<u>165,586</u>	<u>165,586</u>
Total deferred inflows of resources	<u>\$ 55,160</u>	<u>\$ 909,699</u>	<u>\$ 964,859</u>

\$699,076 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2017	\$ 1,418	\$ (211,600)	\$ (210,182)
2018	1,418	(211,600)	(210,182)
2019	1,415	(211,601)	(210,186)
2020	<u>41,119</u>	<u>182,072</u>	<u>223,191</u>
Total	<u>\$ 45,370</u>	<u>\$ (452,729)</u>	<u>\$ (407,359)</u>

Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22.00 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.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	<u>15.00</u>	7.50
 Total	 <u><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>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$ 2,771,530	\$ 1,998,737	\$ 1,347,982

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - STRS

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

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

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

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

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

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

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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	\$ 13,884,109	\$ 9,995,216	\$ 6,706,577

NOTE 15 - 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, number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, none of the employer contribution 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 \$17,953.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 15 - POSTEMPLOYMENT BENEFITS (Continued)

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$17,953, \$25,627, and \$18,486, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$38,997, respectively. The full amount has been contributed for fiscal year 2014.

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP 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 budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) 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 an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis); and,
- (d) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 645,199
Net adjustment for revenue accruals	(118,192)
Net adjustment for expenditure accruals	34,556
Net adjustment for other sources/uses	(11,821)
Funds budgeted elsewhere	1,320
Adjustment for encumbrances	215,785
GAAP basis	\$ 766,847

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the special trust fund, adult education fund, special rotary fund and the public school support fund.

NOTE 17 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

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

C. Foundation Funding

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2015-2016 school year, traditional 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.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

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

NOTE 18 - 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.

	<u>Capital Improvements</u>
Set-aside balance June 30, 2015	\$ -
Current year set-aside requirement	139,002
Current year offsets	(27,960)
Prior year offset from bond proceeds	<u>(111,042)</u>
Total	<u>\$ -</u>
Balance carried forward to fiscal year 2017	<u>\$ -</u>
Set-aside balance June 30, 2016	<u>\$ -</u>

During fiscal year 1996, the District issued \$1,795,000 in capital related school improvement bonds. These proceeds may be used to reduce capital acquisition below zero for future years. The amount presented for Prior Year Offset from Bond Proceeds is limited to an amount needed to reduce the reserve for capital improvement to \$0. The District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods, which was \$538,460 at June 30, 2016.

NOTE 19 - 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>Year-End Encumbrances</u>
<u>Fund</u>	
General fund	\$ 171,380
Other governmental	<u>9,079</u>
Total	<u>\$ 180,459</u>

REQUIRED SUPPLEMENTARY INFORMATION

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**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability	0.03502810%	0.03323200%	0.03323200%
District's proportionate share of the net pension liability	\$ 1,998,737	\$ 1,681,853	\$ 1,976,200
District's covered-employee payroll	\$ 1,054,530	\$ 965,664	\$ 964,277
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	189.54%	174.17%	204.94%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST THREE FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability	0.03616597%	0.03691467%	0.03691467%
District's proportionate share of the net pension liability	\$ 9,995,216	\$ 8,978,925	\$ 10,695,637
District's covered-employee payroll	\$ 3,823,764	\$ 3,771,654	\$ 4,111,208
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	261.40%	238.06%	260.16%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 158,722	\$ 138,987	\$ 133,841	\$ 133,456
Contributions in relation to the contractually required contribution	<u>(158,722)</u>	<u>(138,987)</u>	<u>(133,841)</u>	<u>(133,456)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 1,133,729	\$ 1,054,530	\$ 965,664	\$ 964,277
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 127,762	\$ 120,145	\$ 134,028	\$ 89,668	\$ 89,726	\$ 96,125
<u>(127,762)</u>	<u>(120,145)</u>	<u>(134,028)</u>	<u>(89,668)</u>	<u>(89,726)</u>	<u>(96,125)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 949,903	\$ 955,807	\$ 989,867	\$ 911,260	\$ 913,707	\$ 900,047
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 540,354	\$ 535,327	\$ 490,315	\$ 534,457
Contributions in relation to the contractually required contribution	<u>(540,354)</u>	<u>(535,327)</u>	<u>(490,315)</u>	<u>(534,457)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 3,859,671	\$ 3,823,764	\$ 3,771,654	\$ 4,111,208
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 517,854	\$ 517,817	\$ 498,662	\$ 479,461	\$ 461,417	\$ 434,290
<u>(517,854)</u>	<u>(517,817)</u>	<u>(498,662)</u>	<u>(479,461)</u>	<u>(461,417)</u>	<u>(434,290)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,983,492	\$ 3,983,208	\$ 3,835,862	\$ 3,688,162	\$ 3,549,362	\$ 3,340,692
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT
HURON COUNTY, OHIO**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal years 2014-2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.



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**Independent Auditor's Report on Internal Control Over Financial Reporting and On
Compliance and Other Matters Required by *Government Auditing Standards***

South Central Local School District
Huron County
3305 Greenwich Angling Road
Greenwich, Ohio 44837

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the South Central Local School District, Huron County, Ohio, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the South Central Local School District's basic financial statements and have issued our report thereon dated December 27, 2016.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the South Central Local School 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 South Central Local School 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 South Central Local School 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.

Board of Education
South Central Local School District

Compliance and Other Matters

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

Purpose of this Report

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



Julian & Grube, Inc.
December 27, 2016



Dave Yost • Auditor of State

SOUTH CENTRAL LOCAL SCHOOL DISTRICT

HURON 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
MARCH 28, 2017**