

Talawanda City School District



Basic Financial Statements

June 30, 2016



Dave Yost • Auditor of State

Board of Education
Talawanda City School District
131 W. Chestnut Street
Oxford, Ohio 45056

We have reviewed the *Independent Auditor's Report* of the Talawanda City School District, Butler County, prepared by Plattenburg & Associates, 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. In conjunction with the work performed by the Independent Public Accountant, the Auditor of State is issuing the following:

Finding for Recovery

During the period of August 29, 2014 to April 1, 2015, the District sold tickets for 71 high school athletic events and the Athletic Director, Jamie Mahaffey was responsible for preparing game reports for these events. Upon review of the game reports we determined the District collected \$62,388, however, only \$57,075 in ticket sales were deposited resulting in a shortage of \$5,313.

Also, on August 8, 2014, the District issued a check to Mr. Mahaffey totaling \$2,000 for the FY 15 Talawanda High School athletics change fund. On May 22, 2015, Mr. Mahaffey was placed on administrative leave by the District. District employees collected all funds and records from the athletic director's office and it was determined there was only \$1,563 related to the athletic department change fund. The purpose of the monies issued to Mr. Mahaffey was to provide change to customers purchasing tickets at athletic events and the athletic department change fund should have totaled \$2,000 when collected. Therefore, we determined there was a shortage of \$437.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a finding for recovery for public property which has been converted or misappropriated is hereby issued against Jamie Mahaffey for \$5,750 in favor of the Student Activity Fund of the Talawanda City School District.

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Noncompliance Citation

Ohio Rev. Code § 149.351 (A) states “All records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under sections [149.38](#) to [149.42](#) of the Revised Code or under the records programs established by the boards of trustees of state-supported institutions of higher education under section [149.33](#) of the Revised Code. Those records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, destroyed, mutilated, or transferred unlawfully.”

In March 2016, we requested to obtain the unused tickets for Talawanda High School’s athletic events for the 2015 school year from the current athletic director. We were told by the current athletic director that they “threw away all the unused tickets from last year in January to make room for our current year tickets.”

We reviewed the District’s schedule of records retention and disposition reported in Section 8310A of the District’s Administrative Guidelines and determined that the schedule does not specifically address unused tickets. However, the schedule does report ‘Ticket Sale Reports’ should be maintained for two years provided they have been audited.

While reviewing athletic ticket sales we identified gaps in the tickets reported as sold on the ticket sales reports and without having the unused tickets to review we were unable to determine if the tickets had been sold or were unused.

We recommend the District maintain all records related to ticket sales reports in accordance with their schedule of records retention and disposition to ensure they are available for audit purposes.

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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 Talawanda City School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D" and a long, sweeping tail on the "y".

Dave Yost
Auditor of State

March 21, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Talawanda City School District

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2016, and the respective changes in financial position, for the year then ended in accordance with 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 that management's discussion and analysis, budgetary comparison schedules and schedules of net pension liabilities and pension contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Cincinnati, Ohio
December 22, 2016

TALAWANDA SCHOOL DISTRICT, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) Year Ended June 30, 2016

This discussion and analysis provides key information from management highlighting the overall financial performance of the Talawanda School District for the year ended June 30, 2016. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the School District's financial statements.

Financial Highlights

Major financial highlights for fiscal year 2016 are listed below:

- ✓ The assets and deferred outflows of resources of the School District exceeded its liabilities and deferred inflows of resources at year-end by \$9,457,695.
- ✓ In total, net position increased by \$3,192,726.
- ✓ The School District had \$39,166,750 in expenses related to governmental activities; only \$3,637,261 of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$38,722,215, made up primarily of property and income taxes as well as State Foundation payments, was used to provide for these programs.
- ✓ The General Fund's ending fund balance increased by \$1,440,279 from \$23,397,060 at June 30, 2015 to \$24,837,339 at June 30, 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

TALAWANDA SCHOOL DISTRICT, OHIO
Management's Discussion and Analysis
Year Ended June 30, 2016
Unaudited

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the School District's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of the School District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between these reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating.

The statement of activities presents information showing how the School District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the School District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the School District include instruction, support services, administration, operation and maintenance of plant, and extracurricular activities. The School District has no business-type activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between government funds and governmental activities.

The School District accounts for its activities using many individual governmental funds. The most significant funds, known as major funds, are reported in separate columns in the governmental fund financial statements. These statements provide detailed information about the individual major funds – unlike the government-wide financial statements, which report on the School District as a whole. The School District has three major funds: the General Fund, the Debt Service Fund, and the Ohio School Facilities Commission Project Fund. Data for the other governmental funds is combined into a single aggregated presentation.

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also contains required supplementary information concerning the budget for the General Fund and pension information.

TALAWANDA SCHOOL DISTRICT, OHIO
Management's Discussion and Analysis
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GOVERNMENT-WIDE FINANCIAL ANALYSIS

A. Net position at year-end

The following table presents a condensed summary of the School District's overall financial position at June 30, 2016 and 2015:

	Governmental Activities	
	<u>FY16</u>	<u>FY15</u>
Current and other assets	\$ 65,349,980	\$ 71,199,435
Capital assets	62,868,666	55,359,974
Total assets	<u>128,218,646</u>	<u>126,559,409</u>
Deferred outflows of resources	<u>4,405,276</u>	<u>3,052,261</u>
Long-term liabilities:		
Net pension liability	46,347,060	41,296,185
Other long-term amounts	49,791,361	51,928,738
Other liabilities	<u>4,714,717</u>	<u>4,033,893</u>
Total liabilities	<u>100,853,138</u>	<u>97,258,816</u>
Deferred inflows of resource	<u>22,313,089</u>	<u>26,087,885</u>
Net position:		
Net investment in capital assets	19,431,634	10,105,824
Restricted:		
For capital projects	6,377,602	14,464,408
For debt service	3,856,193	4,090,355
For other purposes	1,474,291	1,135,470
Unrestricted (deficit)	<u>(21,682,025)</u>	<u>(23,531,088)</u>
Total net position	<u>\$ 9,457,695</u>	<u>\$ 6,264,969</u>

During 2015, the School District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which significantly revised accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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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 School 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 School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *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.

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

A large portion of the School District's net position (\$19,431,634) reflects its investment in capital assets, less any related debt to acquire those assets that is still outstanding. The School District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Primarily as a result of recognizing its proportionate share of net pension liabilities required under GASB Statement No. 68, the School District's unrestricted net position ended the fiscal year with a deficit balance of \$21,682,025.

Total assets increased by approximately \$1.7 million, or 1%. The majority of this increase was attributable to increases in construction in progress related to the Ohio School Facilities Commission Kramer Elementary project. The project got underway in the spring of 2015. The increase was offset by decreases in cash and investments and intergovernmental receivables, as the School District spent bond proceeds and drew down State funding to finance project costs.

Total liabilities increased by approximately \$3.6 million, or 4%. Accounts payable increased due to project invoices associated with June 2016 activity, were received after the fiscal year-end. The increase in net pension liability of \$5.1 million was due to decreases in investment earnings experienced by both cost-sharing, multi-employer pension plans. The increases were partially offset by decreases in other long-term amounts due to the School District meeting its annual debt service requirements.

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B. Governmental Activities during fiscal year 2016

The following table presents a condensed summary of the School District's activities during fiscal year 2016 and 2015 and the resulting change in net position:

	<u>FY16</u>	<u>FY15</u>
Revenues:		
Program revenues:		
Charges for services and sales	\$ 1,886,107	\$ 2,048,556
Operating grants and contributions	<u>1,751,154</u>	<u>1,779,612</u>
Total program revenues	<u>3,637,261</u>	<u>3,828,168</u>
General revenues:		
Taxes	26,064,767	21,969,448
Grants and entitlements	11,081,805	11,043,696
Investment earnings	210,030	66,280
Miscellaneous	<u>1,365,613</u>	<u>694,980</u>
Total general revenues	<u>38,722,215</u>	<u>33,774,404</u>
Total revenues	<u>42,359,476</u>	<u>37,602,572</u>
Expenses:		
Instruction	22,133,592	21,782,219
Support services	12,353,603	12,084,283
Non-instructional services	956,167	976,773
Interest on long-term debt	2,555,159	2,700,574
Food services	<u>1,168,229</u>	<u>1,197,465</u>
Total expenses	<u>39,166,750</u>	<u>38,741,314</u>
Change in net position	3,192,726	(1,138,742)
Net position beginning of year	<u>6,264,969</u>	<u>7,403,711</u>
Net position end of year	<u>\$ 9,457,695</u>	<u>\$ 6,264,969</u>

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Of the total governmental activities revenues of \$42,359,476, \$3,637,261 is from program revenue. This means that the School District relies on general revenues to fund the majority of the cost of services provided to the citizens. Of those general revenues, \$26,064,767 (67%) comes from property and income taxes and \$11,081,805 (29%) is from state funding. The School District's operations are reliant upon its property tax levy, income taxes and the state's foundation program.

In total, revenues increased by approximately \$4.8 million, or 13%. The majority of this increase took place in tax revenue. On the cash basis, property taxes decreased by approximately \$195,000. GAAP-basis property tax revenue includes amounts that were available at the County Auditor for advance, which can fluctuate from year to year depending on timing of billing, collections and distributions. Fiscal year 2015's amount includes the reversal of \$4.3 million in taxes that were available for advance at the end of June 30, 2014, and an accrual of \$802,000 available to advance of June 30, 2015, resulting in a lower amount compared to fiscal year 2016. The amount available as of June 30, 2016 was \$814,000. Additionally, the School District experienced an increase in miscellaneous revenue due to increases in Medicaid reimbursements as additional Medicaid-eligible students were identified.

Total expenses increased by only about \$425,000, or 1%.

Governmental Activities

The following table presents the total cost of each of the School District's primary services, and the comparative net cost after deducting the revenues generated by each function. Approximately 9% of the cost of the general government programs was recouped in program revenues. Instruction costs were \$22,133,592 but program revenue contributed to fund 10% of those costs. Thus, general revenues of \$19,858,964 were used to support the remainder of the instruction costs.

Governmental Activities

	<u>Total Cost of Services</u>	<u>Program Revenue</u>	<u>Revenues as a % of Total Costs</u>	<u>Net Cost of Services</u>
Instruction	\$ 22,133,592	\$ 2,274,628	10%	\$ 19,858,964
Support services	12,353,603	72,041	1%	12,281,562
Non-instructional services	956,167	164,185	17%	791,982
Food service	1,168,229	1,126,407	96%	41,822
Interest on long-term debt	<u>2,555,159</u>	-	0%	<u>2,555,159</u>
Total	<u>\$ 39,166,750</u>	<u>\$ 3,637,261</u>	<u>9%</u>	<u>\$ 35,529,489</u>

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S INDIVIDUAL FUNDS

Governmental funds

The School District has three major governmental funds: the General Fund, the Debt Service Fund, and the Ohio School Facilities Commission (OSFC) Project Fund. Assets of these funds comprise \$56,777,734 (87%) of the total \$65,349,980 governmental funds' assets.

General Fund. Fund balance at June 30, 2016 was \$24,837,339, including \$24,290,879 of unassigned balance, which represents 75% of expenditures for fiscal year 2016. Overall, the General Fund experienced an increase of 6%, due to an increase in taxes and other revenue, discussed previously, while expenditures only increased less than 1%.

Debt Service Fund. The Debt Service Fund had a fund balance at June 30, 2016 of \$4,306,089, an decrease of \$183,920 over the prior fiscal year. The Debt Service Fund is used to accumulate resources to retire the School District's general obligation bonds. All required bond payments were made as schedule during the current fiscal year.

OSFC Project Fund. The OSFC Fund accounts for both local and state resources for the construction and renovation of school facilities. Project activity began on Kramer Elementary in fiscal year 2015.

GENERAL FUND BUDGETARY HIGHLIGHTS

The schedule comparing the School District's original and final budgets and actual results are included in the required supplementary information. For revenue, the original budget, final budget and actual amounts were within 2% or less. Actual expenditures came in less than budgeted by \$357,984, or 1%, due to budgeted contingency funds not being required.

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CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. At June 30, 2016, the School District had \$62,868,666 invested in a broad range of capital assets, including land, construction in progress, buildings, equipment, and vehicles. See Note 5 to the financial statements for more detail.

Governmental Activities
Capital Assets at Year-End
(Net of Depreciation)

	FY16	FY15
Land	\$ 2,473,497	\$ 2,473,497
Construction in progress	9,547,005	909,909
Land improvements	243,668	261,206
Buildings and improvements	48,747,226	50,184,382
Furniture and equipment	1,779,414	1,526,322
Vehicles	77,856	4,658
Total	\$ 62,868,666	\$ 55,359,974

The School District began work on Kramer Elementary during fiscal year 2015.

Debt. As of June 30, 2016, the School District had \$45,240,000 outstanding in general obligation school improvement bonds and certificates of participation after making \$2,090,000 in principal payments during the fiscal year. See Note 10 to the financial statements.

ECONOMIC FACTORS

In November 2004, the School District passed a 1% School District Income Tax that has generated over \$6 million annually, reaching \$6.5 million in FY16. The School District continues working hard to maintain a positive general fund cash balance through the 2021 school year.

The School District began taking certain cost reduction measures beginning in fiscal year 2008 that continued through fiscal year 2016. These measures include attrition, increased class sizes and plan design changes for the School District's medical/dental plan consortium.

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In November 2008, the School District passed a 4.7 mill G.O. Bond Issue to build a new High School. The cost of this new 190,000 square foot facility totaled approximately \$46 million. The project cost included site acquisition of a 154 acre parcel of land just south of the Oxford City limits on Route 27. The City annexed this land and is providing city services (including water and sewer) to the School District's new building. The building was certified for occupation in July 2012 and was about \$750,000 under budget. The district just began its 5th year in the high school facility.

In December 2013, the Board of Education and the Ohio Facilities Construction Commission executed an agreement to construct a new 70,000 square foot elementary school in Oxford, OH. This new elementary would replace the School District's existing Kramer Elementary (at the same site), which will be razed when the new building is completed in December 2016. The projected cost of the new Kramer Elementary is \$17.1 million and the State will pay \$11.5 million (or 67%) of this cost based on credits the School District previously earned through the State's Expedited Local Partnership Program. The balance will be funded by the School District with \$3.82 million in Certificates of Participation (COPs), issued in August 2014; proceeds from disposition of its old high school site to Miami University; and additional locally funded initiatives for \$709,000, approved by the Board of Education in July 2015.

The debt service for the Kramer COPs will be paid from the School District's existing and ongoing permanent improvement fund and not the general fund.

REQUESTS FOR ADDITIONAL INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's office at the Talawanda School District, 131 West Chestnut Street, Oxford, Ohio 45056.

TALAWANDA SCHOOL DISTRICT, OHIO

Statement of Net Position

June 30, 2016

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments	\$ 38,250,378
Receivables:	
Taxes	22,780,824
Accounts	21,249
Intergovernmental	3,816,225
Supplies inventory	15,294
Prepays	125,579
Restricted assets	340,431
Nondepreciable capital assets	12,020,502
Depreciable capital assets, net	<u>50,848,164</u>
Total assets	<u>128,218,646</u>
Deferred Outflows of Resources:	
Pensions	<u>4,405,276</u>
Liabilities:	
Accounts payable	894,205
Accrued wages and benefits	3,198,718
Intergovernmental payable	418,640
Accrued interest payable	203,154
Noncurrent liabilities:	
Due within one year	2,429,097
Due more than one year:	
Net pension liability	46,347,060
Other amounts due more than one year	<u>47,362,264</u>
Total liabilities	<u>100,853,138</u>
Deferred Inflows of Resources:	
Taxes levied for next fiscal year	18,766,362
Pensions	<u>3,546,727</u>
Total deferred inflows of resources	<u>22,313,089</u>
Net Position:	
Net investment in capital assets	19,431,634
Restricted for:	
Capital projects	6,377,602
Debt service	3,856,193
Other purposes	1,474,291
Unrestricted (deficit)	<u>(21,682,025)</u>
Total net position	<u>\$ 9,457,695</u>

See accompanying notes to the basic financial statements.

TALAWANDA SCHOOL DISTRICT, OHIO

Statement of Activities
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	\$ 16,813,272	\$ 1,274,703	\$ 116,426	\$ (15,422,143)
Special education	3,684,850	-	805,010	(2,879,840)
Other instruction	1,635,470	-	78,489	(1,556,981)
Support services:				
Pupil	1,886,114	-	8,839	(1,877,275)
Instructional staff	1,048,544	-	58,863	(989,681)
Board of Education	82,661	-	-	(82,661)
Administration	2,288,315	-	138	(2,288,177)
Fiscal	1,294,629	-	307	(1,294,322)
Business	13,851	-	-	(13,851)
Operation and maintenance of plant	3,107,008	-	1,800	(3,105,208)
Pupil transportation	2,405,694	-	2,094	(2,403,600)
Central	226,787	-	-	(226,787)
Non-instructional services:				
Extracurricular activities	920,766	108,099	-	(812,667)
Community service	35,401	-	56,086	20,685
Food service	1,168,229	503,305	623,102	(41,822)
Interest on long-term debt	2,555,159	-	-	(2,555,159)
Total Governmental Activities	\$ 39,166,750	\$ 1,886,107	\$ 1,751,154	(35,529,489)

General Revenues:

Property taxes, levied for general purposes	14,997,687
Property taxes, levied for debt service	3,153,441
Property taxes, levied for capital projects	1,261,375
Income taxes	6,652,264
Grants and entitlements not restricted to specific programs	11,081,805
Investment earnings	210,030
Miscellaneous	1,365,613
Total general revenues	38,722,215
Change in net position	3,192,726
Net position beginning of year	6,264,969
Net position end of year	\$ 9,457,695

See accompanying notes to the basic financial statements.

TALAWANDA SCHOOL DISTRICT, OHIO

Balance Sheet

Governmental Funds

June 30, 2016

	General	Debt Service Fund	OSFC Project Fund	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and investments	\$ 24,803,157	\$ 4,162,384	\$ 2,107,616	\$ 7,177,221	\$ 38,250,378
Restricted cash	340,431	-	-	-	340,431
Receivables:					
Taxes	18,070,062	3,435,046	-	1,275,716	22,780,824
Accounts	21,249	-	-	-	21,249
Intergovernmental	233,596	-	3,478,614	104,015	3,816,225
Prepays	125,579	-	-	-	125,579
Supplies inventory	-	-	-	15,294	15,294
Total assets	<u>\$ 43,594,074</u>	<u>\$ 7,597,430</u>	<u>\$ 5,586,230</u>	<u>\$ 8,572,246</u>	<u>\$ 65,349,980</u>
Liabilities:					
Accounts payable	\$ 81,060	\$ -	\$ 529,728	\$ 283,417	\$ 894,205
Accrued wages and benefits	2,998,400	-	-	200,318	3,198,718
Intergovernmental payable	409,487	-	-	9,153	418,640
Compensated absences payable	9,218	-	-	3,454	12,672
Total liabilities	<u>3,498,165</u>	<u>-</u>	<u>529,728</u>	<u>496,342</u>	<u>4,524,235</u>
Deferred Inflows of Resources:					
Taxes levied for next fiscal year	14,321,391	3,245,195	-	1,199,776	18,766,362
Unavailable revenue	937,179	46,146	1,052,676	72,841	2,108,842
Total deferred inflows of resources	<u>15,258,570</u>	<u>3,291,341</u>	<u>1,052,676</u>	<u>1,272,617</u>	<u>20,875,204</u>
Fund Balances:					
Nonspendable	125,579	-	-	15,294	140,873
Restricted	-	4,306,089	4,003,826	6,869,640	15,179,555
Assigned	420,881	-	-	-	420,881
Unassigned	24,290,879	-	-	(81,647)	24,209,232
Total fund balances	<u>24,837,339</u>	<u>4,306,089</u>	<u>4,003,826</u>	<u>6,803,287</u>	<u>39,950,541</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 43,594,074</u>	<u>\$ 7,597,430</u>	<u>\$ 5,586,230</u>	<u>\$ 8,572,246</u>	<u>\$ 65,349,980</u>

See accompanying notes to the basic financial statements.

Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2016

Total Governmental Fund Balances		\$ 39,950,541
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		62,868,666
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds.		2,108,842
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
GO bonds and COPS	45,240,000	
Unamortized premiums	712,416	
Bond accretion	292,888	
Compensated absences	1,886,385	
Lease-purchase agreement	1,647,000	
Accrued interest payable	203,154	
Total		(49,981,843)
The net pension liability is not due and payable in the current period, therefore, the liability and related deferred outflows and inflows of resources are not reported in the governmental funds:		
Deferred outflows - pensions	4,405,276	
Deferred inflows - pensions	(3,546,727)	
Net pension liability	(46,347,060)	
Total		(45,488,511)
Net Position of Governmental Activities		\$ 9,457,695

TALAWANDA SCHOOL DISTRICT, OHIO

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2016

	General	Debt Service Fund	OSFC Project Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 21,580,313	\$ 3,145,172	\$ -	\$ 1,258,067	\$ 25,983,552
Tuition and fees	1,070,063	-	-	-	1,070,063
Interest	202,698	-	2,474	4,873	210,045
Charges for services	-	-	-	503,305	503,305
Intergovernmental	9,807,401	1,044,363	6,791,886	1,947,653	19,591,303
Other local revenues	1,230,198	-	-	218,948	1,449,146
Total revenues	<u>33,890,673</u>	<u>4,189,535</u>	<u>6,794,360</u>	<u>3,932,846</u>	<u>48,807,414</u>
Expenditures:					
Current:					
Instruction:					
Regular	15,489,344	-	-	565,075	16,054,419
Special education	2,890,322	-	-	813,604	3,703,926
Other instruction	1,569,297	-	-	78,834	1,648,131
Support services:					
Pupil	1,803,885	-	-	44,090	1,847,975
Instructional staff	983,805	-	-	58,845	1,042,650
Board of Education	81,644	-	-	-	81,644
Administration	2,272,097	-	-	135	2,272,232
Fiscal	1,204,195	43,217	-	17,362	1,264,774
Business	13,851	-	-	-	13,851
Operation and maintenance of plant	2,828,614	-	-	209,333	3,037,947
Pupil transportation	2,396,443	-	-	2,047	2,398,490
Central	224,051	-	-	587	224,638
Non-instructional services:					
Extracurricular activities	692,846	-	-	109,896	802,742
Community service	-	-	-	86,675	86,675
Food service	-	-	-	1,150,453	1,150,453
Capital outlay	-	-	5,794,563	2,843,367	8,637,930
Debt Service:					
Principal	-	1,975,000	-	239,000	2,214,000
Interest and fiscal charges	-	2,355,238	-	213,254	2,568,492
Total expenditures	<u>32,450,394</u>	<u>4,373,455</u>	<u>5,794,563</u>	<u>6,432,557</u>	<u>49,050,969</u>
Net change in fund balance	1,440,279	(183,920)	999,797	(2,499,711)	(243,555)
Fund balance, beginning of year	23,397,060	4,490,009	3,004,029	9,302,998	40,194,096
Fund balance, end of year	<u>\$ 24,837,339</u>	<u>\$ 4,306,089</u>	<u>\$ 4,003,826</u>	<u>\$ 6,803,287</u>	<u>\$ 39,950,541</u>

See accompanying notes to the basic financial statements.

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds	\$ (243,555)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Capital asset additions	9,515,174
Depreciation expense	(2,002,092)
In the statement of activities, only the gain or loss on the sale of capital assets is reported, while only proceeds from the sale of assets are reported in the funds.	(4,390)
Principal paid on long-term debt is recorded as an expenditure in the governmental funds, but is recorded as a reduction of the long-term liability on the statement net position.	2,214,000
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is reported when due.	7,293
Accretion on capital appreciation bonds is recorded each year as interest expense in the statement of activities, whereas in the governmental funds, an interest expenditure is recorded when due.	(65,804)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:	
Compensated absences	(77,577)
Amortization of premiums	71,844
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(6,443,548)
Contractually required contributions are reported as expenditures in the governmental funds; however, the statement of activities report these amounts as deferred outflows.	2,565,496
Except for amounts reported as deferred outflows or inflows of resources, changes in the net pension liability are reported as pension expense in the statement of activities.	<u>(2,344,115)</u>
Change in Net Position of Governmental Activities	<u>\$ 3,192,726</u>

TALAWANDA SCHOOL DISTRICT, OHIO

Statement of Net Position

Fiduciary Funds

June 30, 2016

	<u>Private- Purpose Trusts</u>	<u>Agency Funds</u>
Assets:		
Equity in pooled cash and investments	\$ 26,188	\$ 123,842
Total assets	<u>26,188</u>	<u>123,842</u>
Liabilities:		
Due to student groups	-	100,662
Due to others	-	23,180
Total liabilities	<u>-</u>	<u>\$ 123,842</u>
Net Position:		
Held in trust	<u>\$ 26,188</u>	

See accompanying notes to the basic financial statements.

TALAWANDA SCHOOL DISTRICT, OHIO

Statement of Changes in Net Position

Fiduciary Funds

Year Ended June 30, 2016

	<u>Private- Purpose Trusts</u>
Additions:	
Contributions	<u>\$ 15,303</u>
Total additions	<u>15,303</u>
Deductions:	
Community gifts, awards and scholarships	<u>8,190</u>
Total deductions	<u>8,190</u>
Change in net position	7,113
Net position, beginning of year	<u>19,075</u>
Net position, end of year	<u>\$ 26,188</u>

See accompanying notes to the basic financial statements.

TALAWANDA SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Talawanda School District, Ohio (the "School District") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The School District is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District operates under a locally elected Board of Education (five members) and is responsible for the education of the residents of the School District.

The reporting entity is comprised of the primary government, which consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the School District, this includes general operations, food service, and student related activities. Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District is associated with five organizations, two of which are defined as jointly governed organizations and three as insurance purchasing pools. These organizations include Southwestern Ohio Computer Association, Butler Technology and Career Development Schools, the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan, the Ohio School Plan, and the Butler Health Plan. These organizations are presented in Notes 13 and 14.

B. Basis of Presentation

Government-wide Financial Statements display information about the School District as a whole. The statement of net position and the statement of activities include the financial activities of the primary government except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District has no business-type activities.

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which the governmental fund financial statements are prepared. Therefore, the governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—*continued***

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

Fund Financial Statements report detailed information about the School 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. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, current liabilities and deferred inflows of resources are generally included on the balance sheet. Operating statements of these funds present sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

C. **Fund Accounting**

The School District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are grouped into the categories governmental and fiduciary.

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

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

Debt Service Fund – The debt service fund accounts for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—*continued***

OSFC Project Fund – The Ohio School Facilities Commission Project fund accounts for the accumulation of local and State resources for the construction of new facilities and improvement of existing buildings.

Fiduciary Funds report on net position and changes in net position. The School District's fiduciary funds consist of private-purpose trust funds and agency funds. The School District's private-purpose trust funds account for scholarship programs for students. These assets are not available for the School District's use. Agency funds, used for student activities and unclaimed monies, are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. **Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made.

The modified accrual basis of accounting is used by the governmental funds. On a modified accrual basis, revenues are recorded when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after fiscal year end. Under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes available for advance, income taxes, interest, tuition, student fees, and grants.

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 except for unmatured principal and interest on general long-term debt which is recognized when due. Allocations of cost, such as depreciation, are not recognized in the governmental funds.

Government-wide financial statements are prepared using the accrual basis of accounting. Also, fiduciary funds utilize accrual accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Revenues - Exchange and Non-exchange transactions. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—*continued***

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

Deferred Inflows of Resources. In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized until that time. For the School District, deferred inflows of resources include property taxes, unavailable revenue and pensions. Receivables for property taxes represent amounts that are measurable as of June 30, 2016, but are intended to finance 2017 operations. These amounts have been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund financial statements and represents receivables that will not be collected within the available period (sixty days after fiscal year-end). Deferred inflows of resources from pensions are reported on the government-wide statement of net position (see Note 7).

Deferred Outflows of Resources. In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources from pensions are reported on the government-wide statement of net position (see Note 7).

E. **Cash and Investments**

To improve cash management, all cash received by the School District is pooled in central bank accounts. Monies for all funds are maintained in these accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the balance sheet. During fiscal year 2016, the School District's investments were limited to US Treasury notes, US money market funds, US Agency securities and the State Treasury Assets Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office that 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 the net asset value per share provided by STAR Ohio on an amortized cost basis at June 30, 2016, which approximates fair value.

TALAWANDA SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—*continued*

The Governmental Accounting Standards Board Statement No. 72 (GASB 72), “*Fair Value Measurement and Application*”, requires that investments, with certain exceptions, be recorded at their fair value and that changes in the fair value be reported in the operating statement. The School District recorded investments held at June 30, 2016 at fair value.

Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to agency funds, certain trust funds, and those other funds individually authorized by Board resolution. Interest earnings are allocated to these funds based on average monthly cash balance.

F. Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and governmental fund financial statements.

G. Inventory

Inventories of governmental funds are stated at cost, determined on a first-in, first-out basis and recorded as expenditures in the governmental funds when consumed.

H. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. The School District defines capital assets as those with an individual cost of more than \$1,000 and an estimated useful life in excess of one year. All capital assets are capitalized at cost or estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements. Capital assets are reported as expenditures of the current period in the governmental fund financial statements.

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

Buildings	30-50 years
Land improvements	10-20 years
Building improvements	10-40 years
Equipment and furniture	5-20 years
Vehicles	5-10 years

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—*continued***

I. **Compensated Absences**

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

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

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, a liability is recorded for compensated absences only if they have matured, for example, as a result of employee resignations and/or retirements.

J. **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources with the exception of compensated absences as noted above.

K. **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.

L. **Fund Balances**

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

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—*continued***

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

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 School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School 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. The School District did not have any committed fund balances at year-end.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the School District Board of Education. The Board of Education has authorized the Treasurer to assign fund balance for purchases on order provided those amounts have been lawfully appropriated.

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

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

M. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set aside to establish a budget stabilization set-aside.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—*continued*

N. Net Position

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

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

O. Estimates

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

2. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School 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 School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current two-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 that 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 pass book accounts.

2. DEPOSITS AND INVESTMENTS—*continued*

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution. Interim monies are permitted to 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 or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by the federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section 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 bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days 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 rating classifications by at least two nationally recognized rating agencies.

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

Investments may only be made through specified dealers and institutions. 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.

TALAWANDA SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2016

2. DEPOSITS AND INVESTMENTS—*continued*

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and amended by GASB Statement No. 40 "Deposit and Investment Risk Disclosures":

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a custodial credit risk policy. At year-end, \$18,795,141 of the School District's bank balance of \$19,045,141 was exposed to custodial credit risk since it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

Investments

The School District's investments at June 30, 2016 are summarized as follows:

	Balance at 6/30/16	Average Maturity (Years)	Concentration of Credit Risk
STAR Ohio	\$ 188,187	n/a	0.86%
U.S. Money Market Funds	3,414	n/a	0.02%
FFCB	3,318,304	1.54	15.09%
FHLB	2,423,774	0.63	11.02%
FNMA	5,442,412	3.09	24.75%
FHLMC	4,665,507	2.13	21.22%
Negotiable CD's	3,677,428	3.88	16.73%
U.S. Treasuries	2,266,261	0.72	10.31%
	<u>\$ 21,985,287</u>		<u>100.00%</u>

Credit Risk. It is the School District's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings by nationally recognized statistical rating organizations. The School District's investments in U.S. agency obligations were rated AA+ by Standard & Poor's and Aaa by Moody's. Investments in STAR Ohio were rated AAAm by Standard & Poor's.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a failure of a counter party, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's investment securities are registered in the name of the School District.

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

TALAWANDA SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2016

2. DEPOSITS AND INVESTMENTS—*continued*

Fair Value Measurement

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The School District has the following recurring fair value measurements as of June 30, 2016:

	Balance at 6/30/16	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Investments by Fair Value Level</u>				
Negotiable CDs	\$ 3,677,428	\$ -	\$ 3,677,428	\$ -
Debt Securities				
U.S. Treasury Notes	2,266,261	2,266,261	-	-
U.S. Agency Obligations	15,849,997	-	15,849,997	-
Total Investments by Fair Value Level	<u>\$ 21,793,686</u>	<u>\$ 2,266,261</u>	<u>\$ 19,527,425</u>	<u>\$ -</u>

Debt securities classified in Level 1 of the fair value hierarchy are valued using quoted market prices. Negotiable CDs and debt securities classified in Level 2 of the fair value hierarchy are valued using pricing sources as provided by the investment managers.

3. PROPERTY TAXES

Property taxes are levied and assessed on a calendar-year basis. Distributions from the second half of the calendar year occur in a subsequent fiscal year and are intended to finance the operations of that year, except monies available to be advanced against such distributions which may be appropriated and used in the current fiscal year. Property taxes include amounts levied against all real and public property located in the School District.

Real property taxes and public utility taxes are levied after April against the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised value.

Public utility property taxes are assessed on tangible personal property as well as land and improvements. Real property is assessed at 35% of true value and tangible personal property is currently assessed at varying percentages of true value. These taxes attach as a lien against local and inter-exchange telephone companies and are levied January 1 of the current year. Tangible personal property tax on business inventory, manufacturing machinery, and equipment is no longer levied and collected.

TALAWANDA SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2016

3. PROPERTY TAXES—*continued*

Accrued property taxes receivable represents delinquent taxes outstanding and real property and public utility taxes that became measurable as of June 30, 2016. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred inflows of resources for that portion not intended to finance current year operations. The amounts available as advances at June 30, 2016, were \$613,134 in the General Fund, \$143,705 in the Debt Service Fund, and \$57,481 in the Other Governmental Funds.

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

	<u>2015 Second-Half Collections</u>		<u>2016 First-Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 640,750,190	92.83%	651,226,350	92.98%
Public Utility Property	<u>49,473,490</u>	7.17%	<u>49,135,930</u>	7.02%
Total Assessed Value	\$ <u>690,223,680</u>	100.00%	<u>700,362,280</u>	100.00%
Tax rate per \$1,000 of assessed valuation		\$55.30		\$55.30

4. INCOME TAXES

In November 2004, the voters of the School District passed a 1% school income tax on wages earned by residents of the School District. The taxes are collected by the State Department of Taxation in the same manner as the state income tax. In the fiscal year ended June 30, 2016, the School District recorded income tax revenue of \$6,652,264 in the entity-wide financials and a receivable as of June 30, 2016 of \$2,848,537.

TALAWANDA SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2016

5. CAPITAL ASSETS

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

	Balance 7/1/15	Additions	Disposals	Balance 6/30/16
Governmental Activities				
Nondepreciable:				
Land	\$ 2,473,497	\$ -	\$ -	\$ 2,473,497
Construction in progress	909,909	8,637,096	-	9,547,005
	<u>3,383,406</u>	<u>8,637,096</u>	<u>-</u>	<u>12,020,502</u>
Depreciable:				
Land improvements	1,856,499	-	-	1,856,499
Buildings and improvements	68,477,998	-	-	68,477,998
Vehicles	479,811	74,809	-	554,620
Equipment and furniture	9,898,071	803,269	(83,055)	10,618,285
Educational media	1,253,844	-	-	1,253,844
Subtotal	<u>81,966,223</u>	<u>878,078</u>	<u>(83,055)</u>	<u>82,761,246</u>
Totals at historical cost	<u>85,349,629</u>	<u>9,515,174</u>	<u>(83,055)</u>	<u>94,781,748</u>
Less accumulated depreciation:				
Land improvements	1,595,293	17,538	-	1,612,831
Buildings and improvements	18,293,616	1,437,156	-	19,730,772
Vehicles	475,153	1,611	-	476,764
Equipment and furniture	8,371,749	545,787	(78,665)	8,838,871
Educational media	1,253,844	-	-	1,253,844
Total accumulated depreciation	<u>29,989,655</u>	<u>2,002,092</u>	<u>(78,665)</u>	<u>31,913,082</u>
Capital assets, net	<u>\$ 55,359,974</u>	<u>\$ 7,513,082</u>	<u>\$ (4,390)</u>	<u>\$ 62,868,666</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,670,648
Special education	17,968
Support services:	
Pupil	68,659
Instructional staff	8,359
Administration	6,568
Fiscal	4,004
Operation and maintenance of plant	92,199
Pupil transportation	7,204
Community service	4,520
Extracurricular activities	104,187
Food service	<u>17,776</u>
Total depreciation expense	<u>\$ 2,002,092</u>

6. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the School District participated in the Ohio School Plan, a risk sharing pool (Note 14) for liability, property, auto, and crime insurance to address these various types of risk. Settled claims have not exceeded coverage in any of the past three years. There has been no significant reduction in the coverage from last year.

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

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

GASB 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 contractually-required contributions outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

TALAWANDA SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2016

7. PENSION PLANS—continued

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2% for the first 30 years of service and 2.5% 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% of their annual covered salary and the School District is required to contribute 14% 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% for plan members and 14% for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016 the allocation to pension, death benefits, and Medicare B was 14%.

The School District’s contractually required contribution to SERS was \$559,952 for fiscal year 2016. Of this amount, \$72,560 is reported as an intergovernmental payable.

7. PENSION PLANS—*continued*

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by 2% of the original base benefit. For members retiring August 1, 2013, or later, the first 2% is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with 5 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 year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5% of the 14% 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 5 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.

TALAWANDA SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2016

7. PENSION PLANS—continued

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 1% July 1, 2014, and will be increased 1% each year until it reaches 14% on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13% of their annual covered salary. The School District was required to contribute 14%; the entire 14% was the portion used to fund pension obligations.

The School District's contractually required contribution to STRS was approximately \$2,005,544 for fiscal year 2016. Of this amount, \$346,080 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources for Pensions

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the projected 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	\$8,628,925	\$37,718,135	\$46,347,060
Proportion of the Net Pension Liability	0.1512229%	0.13647658%	
Pension Expense	\$866,178	\$1,477,937	\$2,344,115

TALAWANDA SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2016

7. PENSION PLANS—continued

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 117,158	\$ 1,722,622	\$ 1,839,780
School District's contributions subsequent to the measurement date	<u>559,952</u>	<u>2,005,544</u>	<u>2,565,496</u>
Total Deferred Outflows of Resources	<u>\$ 677,110</u>	<u>\$ 3,728,166</u>	<u>\$ 4,405,276</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$ (416,359)	\$ (2,773,180)	\$ (3,189,539)
Change in School District's proportionate share	<u>(8,174)</u>	<u>(349,014)</u>	<u>(357,188)</u>
Total Deferred Inflows of Resources	<u>\$ (424,533)</u>	<u>\$ (3,122,194)</u>	<u>\$ (3,546,727)</u>

\$2,565,496 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2017	\$ (146,120)	\$ (718,537)	\$ (864,657)
2018	(146,120)	(718,537)	(864,657)
2019	(146,777)	(718,536)	(865,313)
2020	<u>131,642</u>	<u>756,038</u>	<u>887,680</u>
	<u>\$ (307,375)</u>	<u>\$ (1,399,572)</u>	<u>\$ (1,706,947)</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.

TALAWANDA SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2016

7. PENSION PLANS—*continued*

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

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

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

Wage Inflation	3.25%
Future Salary Increases, including Inflation	4.00% to 22.00%
COLA or Ad Hoc COLA	3%
Investment Rate of Return	7.75% net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

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

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

TALAWANDA SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2016

7. PENSION PLANS—continued

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

Discount Rate – Total pension liability was calculated using the discount rate of 7.75%. 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%). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75%, 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%), or one percentage point higher (8.75%) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District’s proportionate share of the net pension liability	\$11,965,219	\$8,628,925	\$5,819,491

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

TALAWANDA SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2016

7. PENSION PLANS—continued

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

Actuarial assumptions used in the July 1, 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:

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

Discount Rate – The discount rate used to measure the total pension liability was 7.75% 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% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

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

TALAWANDA SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2016

7. PENSION PLANS—continued

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$52,393,334	\$37,718,135	\$25,308,066

Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. The School District's liability is 6.2% of wages paid.

8. POSTEMPLOYMENT BENEFITS

School Employees Retirement System

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

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder for the employer 14% contribution to the Health Care Fund in accordance with the funding policy. For the fiscal year ended June 30, 2016, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute, no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for health care surcharge. For fiscal year 2016, this amount was \$23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For fiscal year 2016, the School District's surcharge obligation was \$72,560.

None of the 14% employer contribution was allocated to the Health Care Fund for the fiscal year 2016. The School District's contributions for health care for the fiscal years June 30, 2015 and 2014 were \$45,000 and \$5,000, respectively.

8. POSTEMPLOYMENT BENEFITS—*continued*

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

State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health 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 School District's contributions for health care for fiscal year ended June 30, 2014 was \$145,000.

9. EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Non-certified employees earn five to twenty-five days of vacation per fiscal year, depending upon length of service while administrators receive twenty days of vacation per year. Accumulated, unused vacation time is paid to non-certified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and non-certified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to maximum of 260 days for administrators and 188 days for teachers and classified staff. Upon retirement, payment is made for twenty-five percent of the employee's accumulated sick leave.

TALAWANDA SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2016

10. LONG-TERM OBLIGATIONS

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

	Principal Outstanding 7/1/15	Additions	Reductions	Principal Outstanding 6/30/16	Amounts Due in One Year
Governmental Activities:					
Series 2007 GO Refunding Bonds:					
Serial and term bonds	\$ 5,090,000	\$ -	\$ (50,000)	\$ 5,040,000	\$ 50,000
Capital appreciation bonds	55,000	-	-	55,000	-
Bond accretion	227,084	65,804	-	292,888	-
Series 2009 School Improve. Bonds:					
Serial and term bonds	37,245,000	-	(1,635,000)	35,610,000	1,655,000
Unamortized premiums	699,791	-	(48,264)	651,527	-
Series 2013 GO Refunding Bonds:					
Serial bonds	1,210,000	-	(290,000)	920,000	300,000
Unamortized premiums	65,908	-	(22,776)	43,132	-
Series 2014 Certificates of Participation:					
Serial and term certificates	3,730,000	-	(115,000)	3,615,000	125,000
Unamortized premiums	18,561	-	(804)	17,757	-
Lease-purchase agreements	1,771,000	-	(124,000)	1,647,000	130,000
Compensated absences	1,816,394	267,731	(185,068)	1,899,057	169,097
Net pension liability:					
STRS	33,632,095	4,086,040	-	37,718,135	-
SERS	7,664,090	964,835	-	8,628,925	-
Total	<u>\$93,224,923</u>	<u>\$ 5,384,410</u>	<u>\$ (2,470,912)</u>	<u>\$96,138,421</u>	<u>\$ 2,429,097</u>

General Obligation School Improvement Bonds – The School District issued \$5,470,000 in Series 2007 general obligation refunding bonds that refunded a portion of the Series 2004 bonds. The refunded bonds pay interest at rates ranging from 4% to 4.5% and will fully mature on December 1, 2030.

The School District issued \$46,049,699 in Series 2009 general obligation school improvement bonds for the purpose of construction of a new high school. This issuance includes \$35,610,000 in Building America Bonds that are eligible to receive subsidy payments from the federal government equal to 35% of the corresponding interest payments. The bonds pay interest at rates ranging from 1.5% to 6.5% and will fully mature on December 1, 2029.

The School District issued \$1,490,000 in Series 2013 general obligation refunding bonds that refunded a portion of the Series 2004 bonds. The refunded bonds pay interest at rates ranging from 3% to 3.5% and will fully mature on December 1, 2018.

Certificates of Participation – The School District issued \$3,820,000 in Series 2014 Certificates of Participation that will, in combination with additional funding from the School District and funding from the Ohio Classroom Facilities Assistance Program, finance construction of a new Kramer Elementary School. The certificates pay interest at rates ranging from 2% to 3.75% and will fully mature on June 1, 2038.

TALAWANDA SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2016

10. LONG-TERM OBLIGATIONS—*continued*

Principal and interest requirements to retire the general obligations bonds and certificates of participation outstanding at June 30, 2016 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 2,130,000	\$ 2,400,648	\$ 4,530,648
2018	2,215,000	2,310,791	4,525,791
2019	2,420,000	2,211,119	4,631,119
2020	2,170,000	2,100,351	4,270,351
2021	2,245,000	1,992,482	4,237,482
2022-2026	15,745,000	7,662,817	23,407,817
2027-2031	16,870,000	2,464,136	19,334,136
2032-2036	995,000	198,666	1,193,666
2037-2038	450,000	25,502	475,502
Total	<u>\$ 45,240,000</u>	<u>\$ 21,366,512</u>	<u>\$ 66,606,512</u>

Lease-purchase Agreement – During 2006, the Board authorized financing in the amount of \$2,593,000 for the construction of a new elementary school with a lease-purchase agreement through the Ohio Association of School Business Official’s Expanded Asset Pooled Financing Program. The future minimum payments for the lease-purchase agreement as of June 30, 2016 were as follows:

Fiscal Year Ending June 30,		
2017	\$	207,412
2018		207,952
2019		208,152
2020		208,012
2021		208,511
2022-2026		<u>1,046,730</u>
Total		2,086,769
Less amount representing interest		<u>(439,769)</u>
Present value of minimum lease payments	\$	<u>1,647,000</u>

All general obligation debt and certificates of participation are supported by the full faith and credit of the School District. Compensated absences will be paid primarily by the General Fund. The certificates of participation and lease-purchase agreement will be paid from the Permanent Improvement Fund.

TALAWANDA SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2016

11. FUND BALANCES

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

Fund Balances	General Fund	Debt Service Fund	OSFC Project Fund	Other Governmental Funds	Total Governmental Funds
<i>Nonspendable</i>					
Inventory	\$ -	\$ -	\$ -	\$ 15,294	\$ 15,294
Prepays	125,579	-	-	-	125,579
<i>Total Nonspendable</i>	125,579	-	-	15,294	140,873
<i>Restricted for</i>					
Food Service Operations	-	-	-	190,167	190,167
Scholarships	-	-	-	140,010	140,010
Classroom Maintenance	-	-	-	948,451	948,451
Athletics	-	-	-	73,612	73,612
Other Purposes	-	-	-	52,375	52,375
Debt Service Payments	-	4,306,089	-	-	4,306,089
Capital Improvements	-	-	4,003,826	5,465,025	9,468,851
<i>Total Restricted</i>	-	4,306,089	4,003,826	6,869,640	15,179,555
<i>Assigned to</i>					
Public School Support	251,483	-	-	-	251,483
Purchases on Order	169,398	-	-	-	169,398
<i>Total Assigned</i>	420,881	-	-	-	420,881
<i>Unassigned (Deficit)</i>	<u>24,290,879</u>	<u>-</u>	<u>-</u>	<u>(81,647)</u>	<u>24,209,232</u>
<i>Total Fund Balance</i>	<u>\$ 24,837,339</u>	<u>\$ 4,306,089</u>	<u>\$ 4,003,826</u>	<u>\$ 6,803,287</u>	<u>\$ 39,950,541</u>

12. FUND BALANCE DEFICITS

At June 30, 2016, the following funds had a deficit fund balance:

Other Governmental Funds:	
IDEA, Part B Fund	\$ 16,001
Title I Grant Fund	48,639
Improving Teacher Quality Grant Fund	17,007

The deficit fund balances were created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

13. JOINTLY GOVERNED ORGANIZATIONS

Butler Technology and Career Development Schools

The Butler Technology and Career Development Schools (Butler Tech), a jointly governed organization, is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from each of the participating school districts' elected board. The Board possesses its own budgeting and taxing authority as a separate body politic and corporate, established by the Ohio Revised Code. Butler Tech was formed for the purpose of providing vocational education opportunities to the students of the member school districts which includes the students of the School District. The School District has no ongoing financial interest in nor responsibility for Butler Tech. To obtain financial information, write to Butler Tech, at 3603 Hamilton-Middletown, Hamilton, Ohio 45011.

Southwestern Ohio Computer Association

The Southwestern Ohio Computer Association (SWOCA) was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the member schools of the three county consortium supports SWOCA based upon per pupil charge dependent upon the software package utilized. SWOCA is governed by a board of directors consisting of the superintendents and treasurers of member school districts. The degree of control exercised by any participating School District is limited to its representation on the Board. To obtain financial information, write to SWOCA, at 3603 Hamilton-Middletown, Hamilton, Ohio 45011.

14. INSURANCE PURCHASING POOLS

Butler Health Plan

The School District participates in the Butler Health Plan (BHP), an insurance purchasing pool, formed to provide affordable and desirable dental, life, medical, and other disability group insurance for member's employees, eligible dependents and designated beneficiaries. The Board of Directors consists of one representative from each of the participating members and is elected by the vote of a majority of the member school districts. Financial information can be obtained from BHP at 400 North Erie Boulevard, Suite B, Hamilton, OH 45011.

Ohio School Plan

The Ohio School Plan (OSP) is an insurance purchasing pool among school districts in Ohio formed for the purpose of establishing a group primary and excess insurance/self-insurance and risk management program. Members agree to jointly participate in coverage of losses and pay all contributions necessary for the specified insurance coverage provided by OSP. This coverage includes comprehensive general liability, automobile liability, certain property insurance and public officials' errors and omissions liability insurance. The affairs of the corporation are managed by a 13-member Board of Directors made up of school administrators. The School District does not have an equity interest in OSP.

14. INSURANCE PURCHASING POOLS—*continued*

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

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

15. CONTINGENCIES

Federal and State Funding

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

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Beginning with the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the School 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 School District.

Litigation

The School District is party to legal proceedings. The School District is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

TALAWANDA SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2016

16. REQUIRED SET-ASIDES

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

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

	<u>Capital</u> <u>Improvements</u>	<u>Budget</u> <u>Stabilization</u>
Set-aside reserve balance as of June 30, 2015	\$ -	\$ 340,431
Bureau of Workers' Compensation rebate		-
Current year set-aside requirement	523,023	-
Current year qualifying expenditures	(1,515,478)	-
Excess qualified expenditures from prior years	-	-
Total	<u>\$ (992,455)</u>	<u>\$ 340,431</u>
Set-aside reserve balance as of June 30, 2016	<u>\$ -</u>	<u>\$ 340,431</u>

The Ohio General Assembly eliminated the requirement for the budget stabilization reserve and effective April 10, 2001, the Board of Education could choose to eliminate the reserve with the exception of rebates received from the Bureau of Workers Compensation. The School District chose not to reduce its budget stabilization reserve.

17. COMMITMENTS

The School District utilizes encumbrance accounting to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At June 30, 2016, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General Fund	\$ 191,886
OSFC Fund	281,744
Other Governmental Funds	<u>161,606</u>
	<u>\$ 635,236</u>

Required Supplementary Information

TALAWANDA SCHOOL DISTRICT, OHIO

Schedule of Revenues, Expenditures and Changes in Fund
Balance - Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Taxes	\$21,217,928	\$ 21,410,515	\$ 21,410,515	\$ -
Tuition and fees	1,043,059	1,070,062	1,070,062	-
Interest	50,000	76,287	76,287	-
Intergovernmental	9,771,192	9,799,688	9,799,688	-
Other local revenues	193,853	576,691	570,336	(6,355)
Total revenues	<u>32,276,032</u>	<u>32,933,243</u>	<u>32,926,888</u>	<u>(6,355)</u>
Expenditures:				
Current:				
Instruction:				
Regular	15,352,923	15,347,214	15,430,612	(83,398)
Special education	3,130,871	2,814,578	2,874,127	(59,549)
Other instruction	1,488,995	1,494,517	1,557,587	(63,070)
Support services:				
Pupil	1,958,458	1,839,502	1,760,025	79,477
Instructional staff	644,227	936,771	960,699	(23,928)
Board of Education	46,621	82,040	92,197	(10,157)
Administration	2,301,661	2,323,845	2,312,274	11,571
Fiscal	1,296,084	1,200,574	1,215,984	(15,410)
Business	21,723	13,851	13,851	-
Operation and maintenance of plant	3,757,857	3,111,231	2,865,345	245,886
Pupil transportation	2,445,276	2,260,906	2,401,615	(140,709)
Central	229,238	233,148	227,179	5,969
Non-instructional services:				
Extracurricular activities	673,484	1,108,975	697,673	411,302
Total expenditures	<u>33,347,418</u>	<u>32,767,152</u>	<u>32,409,168</u>	<u>357,984</u>
Excess of revenues over (under) expenditures	(1,071,386)	166,091	517,720	351,629
Other financing sources (uses):				
Other financing sources	262,705	306,611	306,611	-
Total other financing sources (uses)	<u>262,705</u>	<u>306,611</u>	<u>306,611</u>	<u>-</u>
Net change in fund balance	(808,681)	472,702	824,331	\$ 351,629
Fund balance, beginning of year	23,157,290	23,157,290	23,157,290	
Prior year encumbrances appropriated	216,188	216,188	216,188	
Fund balance, end of year	<u>\$22,564,797</u>	<u>\$ 23,846,180</u>	<u>\$ 24,197,809</u>	

See accompanying notes to required supplementary information.

TALAWANDA SCHOOL DISTRICT, OHIO

Notes to Budgetary Required Supplementary Information
Year Ended June 30, 2016

Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

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

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

Appropriations Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolutions, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at the level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The budget figures, which appear in the schedules of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions. The Board passed supplemental appropriations during the fiscal year.

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

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

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) 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 GAAP basis are that:

Certain funds accounted for as separate funds internally with legally adopted budgets (budget basis) do not meet the definition of special revenue funds under GASB Statement No. 54 and were reported with the General Fund (GAAP basis).

Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

Encumbrances are treated as expenditures for all funds (budget basis) rather than as expenditures when liquidated (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP statements and the budgetary basis schedule:

	<u>General</u>
Net change in fund balance - GAAP Basis	\$ 1,440,279
Increase / (decrease):	
Due to inclusion of Uniform School Supply Fund	(43,501)
Due to inclusion of Public School Support Fund	(58,440)
Due to revenues	(631,208)
Due to expenditures	2,476
Due to other sources (uses)	306,611
Due to encumbrances	<u>(191,886)</u>
Net change in fund balance - Budget Basis	\$ <u>824,331</u>

TALAWANDA SCHOOL DISTRICT, OHIO

Required Supplementary Information

Schedule of School District's Proportionate Share of the Net Pension Liability

School Employees Retirement System of Ohio

Last Three Measurement Periods (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
School District's Proportion of the Net Pension Liability	0.1512229%	0.1514360%	0.1514360%
School District's Proportionate Share of the Net Pension Liability	\$ 8,628,925	\$ 7,664,090	\$ 9,005,413
School District's Covered-Employee Payroll	\$ 4,179,795	\$ 3,832,496	\$ 3,873,692
School District's Proportionate Share of Net Pension Liability as a Percentage of its Covered-Employee Payroll	206.44%	199.98%	232.48%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available. The School District will continue to present information for years available until a full ten-year trend is compiled.

TALAWANDA SCHOOL DISTRICT, OHIO

Required Supplementary Information

Schedule of School District's Proportionate Share of the Net Pension Liability

State Teachers Retirement System of Ohio

Last Three Measurement Periods (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
School District's Proportion of the Net Pension Liability	0.13647658%	0.13827019%	0.13827019%
School District's Proportionate Share of the Net Pension Liability	\$ 37,718,135	\$ 33,632,095	\$ 40,062,332
School District's Covered-Employee Payroll	\$ 13,504,343	\$ 15,214,115	\$ 16,385,915
School District's Proportionate Share of Net Pension Liability as a Percentage of its Covered-Employee Payroll	279.30%	221.06%	244.49%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.09%	74.70%	69.30%

(1) Information prior to 2013 is not available. The School District will continue to present information for years available until a full ten-year trend is compiled.

TALAWANDA SCHOOL DISTRICT, OHIO

Required Supplementary Information
 Schedule of School District Contributions
 School Employees Retirement System of Ohio
 Last Four Fiscal Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions (2)	\$ 559,952	\$ 550,897	\$ 531,184	\$ 536,119
Contributions in Relation to the Contractually Required Contributions	<u>(559,952)</u>	<u>(550,897)</u>	<u>(531,184)</u>	<u>(536,119)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District Covered-Employee Payroll	\$ 3,999,657	\$ 4,179,795	\$ 3,832,496	\$ 3,873,692
Contributions as a Percentage of Covered- Employee Payroll	14.00%	13.18%	13.86%	13.84%

(1) Information prior to 2013 is not available. The School District will continue to present information for years available until a full ten-year trend is compiled.

(2) Prior year contractually required contributions were restated to reflect refunds received in the subsequent fiscal year.

TALAWANDA SCHOOL DISTRICT, OHIO

Required Supplementary Information
 Schedule of School District Contributions
 State Teachers Retirement System of Ohio
 Last Four Fiscal Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	\$ 2,005,544	\$ 1,890,608	\$ 1,977,835	\$ 2,130,169
Contributions in Relation to the Contractually Required Contributions	<u>(2,005,544)</u>	<u>(1,890,608)</u>	<u>(1,977,835)</u>	<u>(2,130,169)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District Covered-Employee Payroll	\$ 14,325,314	\$ 13,504,343	\$ 15,214,115	\$ 16,385,915
Contributions as a Percentage of Covered- Employee Payroll	14.00%	14.00%	13.00%	13.00%

(1) Information prior to 2013 is not available. The School District will continue to present information for years available until a full ten-year trend is compiled.

Talawanda City School District



Single Audit Reports

June 30, 2016

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

Federal Grant/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Passed Through Ohio Department of Education:				
Nutrition Cluster:				
School Breakfast Program	3L70	10.553	\$122,424	\$0
National School Lunch Program	3L60	10.555	419,350	21,083
Total Nutrition Cluster			<u>541,774</u>	<u>21,083</u>
Total U.S. Department of Agriculture			<u>541,774</u>	<u>21,083</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Passed Through Ohio Department of Education:				
Special Education Cluster:				
Special Education-Grants to States	3M20	84.027	571,013	0
Special Education-Preschool Grants	3C50	84.173	8,039	0
Total Special Education Cluster			<u>579,052</u>	<u>0</u>
Title I Grants to Local Educational Agencies	3M00	84.010	392,876	0
English Language Acquisition Grants	3Y70	84.365	12,509	0
Improving Teacher Quality	3Y60	84.367	113,648	0
Total Department of Education			<u>1,098,085</u>	<u>0</u>
Total Federal Assistance			<u>\$1,639,859</u>	<u>\$21,083</u>

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared using the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of 2 CFR 200, Subpart F. The District did not elect to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education
Talawanda City School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Talawanda City School District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 22, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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 deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Cincinnati, Ohio
December 22, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY UNIFORM GUIDANCE**

Board of Education
Talawanda City School District

Report on Compliance for Each Major Federal Program

We have audited the Talawanda City School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated December 22, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Cincinnati, Ohio
December 22, 2016

**TALAWANDA CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant Deficiency(s) identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? No
- Significant Deficiency(s) identified? None reported

Type of auditor’s report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major federal programs:

- Special Education Cluster:
 - Grants to States 84.027
 - Preschool Grants 84.173

Dollar threshold used to distinguish between Type A and Type B Programs \$750,000

Auditee qualified as low-risk auditee? Yes

Section II – Findings Related to the Financial Statements Required to be reported in Accordance with GAGAS

None

Section III – Federal Award Findings and Questioned Costs

None

**TALAWANDA CITY SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
June 30, 2016**

Summary of Prior Audit Findings:

None Noted



Dave Yost • Auditor of State

TALAWANDA CITY SCHOOL DISTRICT

BUTLER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 4, 2017**