

**NORWAYNE LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2016***

SANDY HADSELL, TREASURER



Dave Yost • Auditor of State

Board of Education
Norwayne Local School District
161 South Main Street
Creston, Ohio 44217

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

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

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

Dave Yost
Auditor of State

March 27, 2017

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**NORWAYNE LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO**

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Julian & Grube, Inc.
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Independent Auditor's Report

Norwayne Local School District
Wayne County
161 S. Main Street
Creston, Ohio 44217

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Norwayne Local School District, Wayne County, Ohio, as of June 30, 2016, and the respective changes in cash financial position and the budgetary comparison for the General fund thereof for the fiscal year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Matters

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2016, on our consideration of the Norwayne Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Norwayne Local School District's internal control over financial reporting and compliance.



Julian & Grube, Inc.
December 27, 2016

Norwayne Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

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

HIGHLIGHTS

Key financial highlights for the fiscal year 2016 are as follows:

- Net position of governmental activities increased \$1,145,433.
- General cash receipts accounted for \$12,686,552 or 84.3% of all cash receipts. Program cash receipts in the form of charges for services, operating grants, contributions and interest accounted for \$2,363,509 or 15.7% of total cash receipts of \$15,050,061.
- The District had \$13,904,871 in cash disbursements related to governmental activities; which only \$2,363,509 of these cash disbursements were offset by program cash receipts.
- The District's major governmental funds are the general fund and the bond retirement fund.
- The general fund had \$12,710,246 in receipts and other financing receipts and \$11,396,123 in disbursements and other financing disbursements. During fiscal year 2016, the general fund's fund balance increased \$1,314,123 from \$3,549,684 to \$4,863,807.
- The District's only other major governmental fund is the bond retirement fund. This debt service fund had \$781,531 in receipts and \$766,638 in disbursements. During fiscal year 2016, the bond retirement fund increased \$14,893 from \$531,469 to \$546,362.

USING THE BASIC FINANCIAL STATEMENTS

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

REPORT COMPONENTS

The *Statement of Net Position* and *Statement of Activities* provide information about the cash activities of the District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the District as a way to segregate money whose use is restricted to a particular specific purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the basic financial statements.

Norwayne Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

BASIS OF ACCOUNTING

The basis of accounting is a set of guidelines that determines when financial events are recorded. The District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the District's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE DISTRICT AS A WHOLE

Statement of Net Position and Statement of Activities

The statement of net position and the statement of activities reflect how the District did financially during 2016, within the limitations of the cash basis of accounting. The statement of net position presents the cash balances and investments of the governmental activities of the District at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the District's general receipts.

These statements report the District's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the District's financial health. Over time, increases or decreases in the District's cash position is one indicator of whether the District's financial health is improving or deteriorating. When evaluating the District's financial condition, you should also consider other non-financial factors as well such as the District's property tax base, the condition of the District's capital assets and infrastructure, the extent of the District's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes.

Norwayne Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds – not the District as a whole. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District had two major funds in 2016: the general fund and the bond retirement debt service fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer cash basis financial resources that can be spent in the near future to finance educational programs. Since the District is reporting on the cash basis of accounting, there are no differences in the net position and fund cash balances or changes in net position and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements. However, differences will be apparent when comparing gross revenues and expenses on the fund financial statements to the statement of activities due to transfers netted on the statement of activities. See Note 2 to the basic financial statements in the section entitled *Government-wide Financial Statements*.

Fiduciary Funds

The District has private purpose trust and agency funds. The District's cash basis fiduciary activities are reported on the statement of fiduciary net position and the statement of changes in fiduciary net position. We excluded these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency funds are custodial in nature (assets equal net position – cash basis) and do not involve measurement of results of operations. Fiduciary funds use the cash basis of accounting.

Notes to the Basic Financial Statements

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

Norwayne Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
 Unaudited

THE DISTRICT AS A WHOLE

Recall that the Statement of Net Position provides the perspective of the District as a whole on a cash basis of accounting. Table 1 provides a summary of the District's net position for 2016 compared to 2015.

Table 1
Net Position

| | Governmental Activities | | Increase/ (Decrease) |
|---------------------------------------|-------------------------|--------------|-------------------------|
| | <u>2016</u> | <u>2015</u> | |
| Assets | | | |
| Equity in pooled cash and investments | \$ 6,267,320 | \$ 5,121,887 | \$ 1,145,433 |
| Total assets | 6,267,320 | 5,121,887 | 1,145,433 |
| Net Position | | | |
| Restricted for debt service | 546,362 | 531,469 | 14,893 |
| Restricted for capital projects | 470,540 | 459,485 | 11,055 |
| Restricted for other purposes | 370,396 | 564,756 | (194,360) |
| Restricted for permanent fund | | | |
| Expendable | - | 429 | (429) |
| Nonexpendable | 16,064 | 16,064 | - |
| Unrestricted | 4,863,958 | 3,549,684 | 1,314,274 |
| Total net position | \$ 6,267,320 | \$ 5,121,887 | \$ 1,145,433 |

Total assets of the District, as a whole, increased \$1,145,433. The increase in total assets is primarily due to an increase in cash from an increase in income taxes and property taxes received in during the year.

Table 2 shows the changes in net position for the fiscal year ended June 30, 2016.

Norwayne Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
 Unaudited

Table 2
Change in Net Position

| | Governmental Activities | |
|--|-------------------------|--------------|
| | 2016 | 2015 |
| Cash Receipts | | |
| Program cash receipts | | |
| Charges for services and sales | \$ 1,260,397 | \$ 1,279,190 |
| Operating grants, contributions and interest | 1,103,112 | 975,339 |
| Total program cash receipts | 2,363,509 | 2,254,529 |
| General cash receipts | | |
| Property taxes | 4,279,838 | 4,232,362 |
| Shared revenue restricted for permanent improvements | 35,813 | 21,675 |
| Income taxes | 1,144,788 | 624,560 |
| Grants and entitlements not restricted to specific programs | 7,213,281 | 6,929,532 |
| Investment earnings | 1,678 | 9,880 |
| Proceeds from sale of assets | 3,000 | 5,510 |
| Refunding bonds issued | - | 8,776,179 |
| Premium on refunding bonds issued | - | 839,226 |
| Miscellaneous | 8,154 | 43,669 |
| Total general cash receipts | 12,686,552 | 21,482,593 |
| Total cash receipts | 15,050,061 | 23,737,122 |
| Program Cash Disbursements | | |
| Instruction: | | |
| Regular | \$ 5,387,060 | 5,063,381 |
| Special | 1,715,221 | 1,826,517 |
| Vocational | 102,526 | 162,135 |
| Student intervention services | - | 3,079 |
| Other | 690,726 | 728,602 |
| Support services: | | |
| Pupils | 494,070 | 425,118 |
| Instructional staff | 325,959 | 335,229 |
| Board of education | 34,511 | 60,023 |
| Administration | 927,307 | 868,332 |
| Fiscal | 296,615 | 298,016 |
| Operation and maintenance of plant | 939,091 | 909,916 |
| Pupil transportation | 859,301 | 920,282 |
| Central | 11,018 | 7,977 |
| Operation of food service | 484,473 | 542,071 |
| Extracurricular activities | 649,098 | 582,435 |
| Capital outlay | 233,820 | 39,147 |
| Debt service: | | |
| Principal retirement | 490,000 | 360,000 |
| Interest and fiscal charges | 264,075 | 258,053 |
| Issuance costs | - | 175,885 |
| Payment to refunded bond escrow agent | - | 9,435,437 |
| Total cash disbursements | 13,904,871 | 23,001,635 |
| Transfers | 243 | 872 |
| Change in net position | \$ 1,145,433 | \$ 736,359 |

Norway Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Program cash receipts of \$2,363,509, which are represented by charges for services and sales, and operating grants, contributions and interest, made up 15.7% of total cash receipts. General cash receipts of \$12,686,552 which are primarily represented by property taxes and unrestricted grants and entitlements, made up 84.3% of total cash receipts.

Program cash disbursements for instruction were \$7,895,533 or 56.8% of all program cash disbursements. Regular instruction represents 68.2% of this amount and 38.7% of all program cash disbursements.

Other significant programs include administration, operation and maintenance of plant and transportation which account for 6.7%, 6.8% and 6.2%, respectively of program cash disbursements.

The Statement of Activities shows the cost of program services and the charges for services, grants, and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. In other words, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

Table 3

| | Governmental Activities | | Governmental Activities | |
|---------------------------------------|---------------------------|-------------------------|---------------------------|-------------------------|
| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
| | <u>2016</u> | <u>2016</u> | <u>2015</u> | <u>2015</u> |
| Program Cash Disbursements | | | | |
| Instruction: | | | | |
| Regular | \$ 5,387,060 | \$ (4,651,499) | \$ 5,063,381 | \$ (4,337,014) |
| Special | 1,715,221 | (1,139,892) | 1,826,517 | (1,252,843) |
| Vocational | 102,526 | (70,089) | 162,135 | (75,282) |
| Student intervention services | - | - | 3,079 | (3,079) |
| Other | 690,726 | (690,726) | 728,602 | (728,602) |
| Support services: | | | | |
| Pupils | 494,070 | (375,596) | 425,118 | (363,438) |
| Instructional staff | 325,959 | (325,959) | 335,229 | (335,229) |
| Board of education | 34,511 | (34,511) | 60,023 | (60,023) |
| Administration | 927,307 | (927,307) | 868,332 | (868,332) |
| Fiscal | 296,615 | (296,615) | 298,016 | (298,016) |
| Operation and maintenance of plant | 939,091 | (929,610) | 909,916 | (896,599) |
| Pupil transportation | 859,301 | (859,301) | 920,282 | (920,282) |
| Central | 11,018 | (5,618) | 7,977 | (2,577) |
| Operation of food service | 484,473 | (68,014) | 542,071 | (82,570) |
| Extracurricular activities | 649,098 | (178,730) | 582,435 | (254,698) |
| Capital outlay | 233,820 | (233,820) | 39,147 | (39,147) |
| Debt service: | | | | |
| Principal retirement | 490,000 | (490,000) | 360,000 | (360,000) |
| Interest and fiscal charges | 264,075 | (264,075) | 258,053 | (258,053) |
| Issuance costs | - | - | 175,885 | (175,885) |
| Payment to refunded bond escrow agent | - | - | 9,435,437 | (9,435,437) |
| Total | <u>\$ 13,904,871</u> | <u>\$ (11,541,362)</u> | <u>\$ 23,001,635</u> | <u>\$ (20,747,106)</u> |

The dependence upon tax revenues and unrestricted state entitlements is apparent as program receipts only provided for \$2,363,509 of the total program cash disbursements of \$13,904,871 for 2016.

Norwayne Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

THE DISTRICT FUNDS

The District's governmental funds are accounted for using the cash basis of accounting. All governmental funds had total cash receipts and other financing receipts of \$15,280,304 and cash disbursements and other financing disbursements of \$14,134,871.

General Fund - The District's general fund cash fund balance increased by \$1,314,123 due to an increase in revenues over the prior year.

Bond Retirement Fund - The District's other major governmental fund is the bond retirement fund. This debt service fund had \$781,531 in receipts and \$766,638 in disbursements. During fiscal year 2016, this fund's cash balance increased \$14,893 from \$531,469 to \$546,362.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. The general fund's ending unencumbered cash balance was \$4,712,945.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements. The District had capital outlay disbursements of \$233,820 during fiscal year 2016.

Debt

Under the cash basis of accounting the District does not report bonds, long-term notes or short-term notes in the accompanying cash basis financial statements. However, in order to provide information to the readers of this report, we are providing the following detailed information about the District's bonds. At June 30, 2016, the District had \$8,780,744 in bonds for governmental activities. For additional information regarding debt, please see note 8 of the notes to the basic financial statements.

Norwayne Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
 Unaudited

Table 4 summarizes bonds outstanding for Governmental Activities for the past two years:

Table 4
 General Obligation Bonds Outstanding
 Governmental Activities

| Description of Bonds | Interest Rate | Principal Outstanding 2016 | Principal Outstanding 2015 |
|-------------------------------------|------------------|----------------------------------|----------------------------------|
| 2015 Refunding Facility Improvement | 1.00 - 4.00% | \$ 8,661,179 | \$ 8,776,179 |
| 2007 Classroom Facility Improvement | | 101,104 | 214,986 |
| 2007 Various Purpose | | 18,461 | 39,130 |
| Total | | <u>\$ 8,780,744</u> | <u>\$ 9,030,295</u> |

CURRENT ISSUES

State law fixes the amount of tax revenue, forcing it to remain constant except for new valuations in the District. Management must plan expenses accordingly, staying within the District's five-year plan. The financial future of the District is not without its challenges. These challenges stem from issues that are at the local and State level. The local challenges will continue to exist, as the District must rely heavily on property taxes to fund its operations. State level challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with the unconstitutionality of the State's educational funding system. Although the District relies heavily on its property taxpayers to support its operations, the community support for the schools is quite strong.

Due to the unsettled issues in the school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Sandy Hadsell, Treasurer at Norwayne Local School District, 161 South Main Street, Creston, Ohio 44217.

Norwayne Local School District
Statement of Net Position - Cash Basis
June 30, 2016

| | Governmental Activities |
|--|----------------------------|
| <u>Assets:</u> | |
| Equity in pooled cash and cash investments | \$ 6,267,320 |
| <u>Net position:</u> | |
| Restricted for: | |
| Capital projects | 470,540 |
| Debt service | 546,362 |
| Permanent fund purpose - scholarships | |
| Nonexpendable | 16,064 |
| Other purposes | 370,396 |
| Unrestricted | 4,863,958 |
| Total net position | \$ 6,267,320 |

See accompanying notes to the basic financial statements.

Norwayne Local School District
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2016

| | Program Cash Receipts | | | Net (Cash Disbursements) Cash Receipts and Changes in Net Position |
|---|-------------------------|--|----------------------------|--|
| Cash Disbursements | Charges for Services | Operating Grants, Contributions and Interest | Governmental Activities | |
| <u>Governmental Activities:</u> | | | | |
| Instruction: | | | | |
| Regular | \$ 5,387,060 | \$ 697,381 | \$ 38,180 | \$ (4,651,499) |
| Special | 1,715,221 | 4,260 | 571,069 | (1,139,892) |
| Vocational | 102,526 | - | 32,437 | (70,089) |
| Other | 690,726 | - | - | (690,726) |
| Support services: | | | | |
| Pupils | 494,070 | 33,565 | 84,909 | (375,596) |
| Instructional staff | 325,959 | - | - | (325,959) |
| Board of education | 34,511 | - | - | (34,511) |
| Administration | 927,307 | - | - | (927,307) |
| Fiscal | 296,615 | - | - | (296,615) |
| Operation and maintenance of plant | 939,091 | 9,333 | 148 | (929,610) |
| Pupil transportation | 859,301 | - | - | (859,301) |
| Central | 11,018 | - | 5,400 | (5,618) |
| Operation of food service | 484,473 | 203,295 | 213,164 | (68,014) |
| Extracurricular activities | 649,098 | 312,563 | 157,805 | (178,730) |
| Capital outlay | 233,820 | - | - | (233,820) |
| Debt service: | | | | |
| Principal retirement | 490,000 | - | - | (490,000) |
| Interest and fiscal charges | 264,075 | - | - | (264,075) |
| Total governmental activities | \$ 13,904,871 | \$ 1,260,397 | \$ 1,103,112 | (11,541,362) |
| <u>General Receipts:</u> | | | | |
| Property taxes levied for: | | | | |
| General purposes | | | | 3,440,241 |
| Debt service | | | | 680,343 |
| Capital outlay | | | | 93,498 |
| Classroom maintenance | | | | 65,756 |
| Shared revenue restricted for: | | | | |
| Permanent improvement projects | | | | 35,813 |
| Income taxes levied for: | | | | |
| General purposes | | | | 1,144,788 |
| Grants and entitlements not restricted to specific programs | | | | 7,213,281 |
| Investment earnings | | | | 1,678 |
| Proceeds from sale of capital asset | | | | 3,000 |
| Miscellaneous | | | | 8,154 |
| Total general receipts | | | | 12,686,552 |
| Transfers | | | | 243 |
| Total general revenues and transfers | | | | 12,686,795 |
| Change in net position | | | | 1,145,433 |
| Net position at beginning of year | | | | 5,121,887 |
| Net position at end of year | | | | \$ 6,267,320 |

See accompanying notes to the basic financial statements.

Norwayne Local School District
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2016

| | <u>General</u> | <u>Bond Retirement</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|----------------------------|---|---|
| <u>Assets:</u> | | | | |
| Equity in pooled cash and cash investments | \$ 4,863,807 | \$ 546,362 | \$ 857,151 | \$ 6,267,320 |
| Total assets | <u>\$ 4,863,807</u> | <u>\$ 546,362</u> | <u>\$ 857,151</u> | <u>\$ 6,267,320</u> |
| <u>Fund balances:</u> | | | | |
| Nonspendable: | | | | |
| Permanent fund principal | \$ - | \$ - | \$ 16,064 | \$ 16,064 |
| Restricted for: | | | | |
| Food service | - | - | 5,914 | 5,914 |
| Athletics and music | - | - | 80,840 | 80,840 |
| Instructional programs | - | - | 1 | 1 |
| Capital improvements | - | - | 470,540 | 470,540 |
| Debt service | - | 546,362 | - | 546,362 |
| Classroom facilities maintenance | - | - | 278,241 | 278,241 |
| Technology | - | - | 5,400 | 5,400 |
| Committed to: | | | | |
| Scholarships | - | - | 151 | 151 |
| Assigned to: | | | | |
| Uniform school supplies | 40,125 | - | - | 40,125 |
| Public school support | 52,570 | - | - | 52,570 |
| Next year's budget | 143,136 | - | - | 143,136 |
| Purchases on order | 58,166 | - | - | 58,166 |
| Unassigned | <u>4,569,810</u> | <u>-</u> | <u>-</u> | <u>4,569,810</u> |
| Total fund balances | <u>\$ 4,863,807</u> | <u>\$ 546,362</u> | <u>\$ 857,151</u> | <u>\$ 6,267,320</u> |

See accompanying notes to the basic financial statements.

Norwayne Local School District
Statement of Cash Receipts, Cash Disbursements
and Changes in Cash Basis Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

| | General | Bond Retirement | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------|--------------------------------|--------------------------------|
| <u>Cash Receipts:</u> | | | | |
| Property taxes | \$ 3,440,241 | \$ 680,343 | \$ 159,254 | \$ 4,279,838 |
| Income tax | 1,144,788 | - | - | 1,144,788 |
| Intergovernmental | 7,139,117 | 101,188 | 867,879 | 8,108,184 |
| Interest | 1,101 | - | 1,027 | 2,128 |
| Tuition and fees | 770,281 | - | - | 770,281 |
| Extracurricular activities | 30,800 | - | 246,688 | 277,488 |
| Gifts and donations | 69,807 | - | 153,594 | 223,401 |
| Customer services | - | - | 203,295 | 203,295 |
| Rent | 9,333 | - | - | 9,333 |
| Miscellaneous | 21,535 | - | 4,081 | 25,616 |
| Total cash receipts | <u>12,627,003</u> | <u>781,531</u> | <u>1,635,818</u> | <u>15,044,352</u> |
| <u>Cash Disbursements</u> | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 5,233,299 | - | 153,761 | 5,387,060 |
| Special | 1,194,060 | - | 521,161 | 1,715,221 |
| Vocational | 98,825 | - | 3,701 | 102,526 |
| Other | 690,726 | - | - | 690,726 |
| Support services: | | | | |
| Pupils | 493,620 | - | 450 | 494,070 |
| Instructional staff | 315,854 | - | 10,105 | 325,959 |
| Board of education | 34,511 | - | - | 34,511 |
| Administration | 923,918 | - | 3,389 | 927,307 |
| Fiscal | 281,080 | 12,563 | 2,972 | 296,615 |
| Operation and maintenance of plant | 789,208 | - | 149,883 | 939,091 |
| Pupil transportation | 833,638 | - | 25,663 | 859,301 |
| Central | 5,618 | - | 5,400 | 11,018 |
| Operation of food service | - | - | 484,473 | 484,473 |
| Extracurricular activities | 351,766 | - | 297,332 | 649,098 |
| Capital outlay | - | - | 233,820 | 233,820 |
| Debt service: | | | | |
| Principal retirement | - | 490,000 | - | 490,000 |
| Interest and fiscal charges | - | 264,075 | - | 264,075 |
| Total cash disbursements | <u>11,246,123</u> | <u>766,638</u> | <u>1,892,110</u> | <u>13,904,871</u> |
| Excess of cash receipts over (under) cash disbursements | <u>1,380,880</u> | <u>14,893</u> | <u>(256,292)</u> | <u>1,139,481</u> |
| <u>Other financing receipts (disbursements):</u> | | | | |
| Proceeds from sale of capital assets | 3,000 | - | - | 3,000 |
| Refund of prior year expenditures | - | - | 2,709 | 2,709 |
| Advances in | 80,000 | - | - | 80,000 |
| Advances out | - | - | (80,000) | (80,000) |
| Transfers in | 243 | - | 150,000 | 150,243 |
| Transfers out | (150,000) | - | - | (150,000) |
| Total other financing receipts (disbursements) | <u>(66,757)</u> | <u>-</u> | <u>72,709</u> | <u>5,952</u> |
| Net change in fund balances | 1,314,123 | 14,893 | (183,583) | 1,145,433 |
| Fund balances at beginning of year | 3,549,684 | 531,469 | 1,040,734 | 5,121,887 |
| Fund balances at end of year | <u>\$ 4,863,807</u> | <u>\$ 546,362</u> | <u>\$ 857,151</u> | <u>\$ 6,267,320</u> |

See accompanying notes to the basic financial statements.

Norwayne Local School District
Statement of Receipts, Disbursements and Changes in Fund Balance -
Budget and Actual (Budget Basis) - General Fund
For the Fiscal Year Ended June 30, 2016

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|---|---------------------|---------------------|---------------------|---|
| | Original | Final | Actual | |
| Receipts: | | | | |
| Property taxes | \$ 3,184,021 | \$ 3,452,065 | \$ 3,440,241 | \$ (11,824) |
| Income tax | 1,079,731 | 1,118,406 | 1,182,714 | 64,308 |
| Intergovernmental | 7,098,568 | 7,059,893 | 7,101,191 | 41,298 |
| Interest | 13,500 | 13,500 | 1,101 | (12,399) |
| Tuition and fees | 732,335 | 732,335 | 717,843 | (14,492) |
| Rent | 9,112 | 9,112 | 9,333 | 221 |
| Gifts and donations | 4,500 | 4,500 | 125 | (4,375) |
| Miscellaneous | 3,910 | 3,910 | 6,480 | 2,570 |
| Total receipts | 12,125,677 | 12,393,721 | 12,459,028 | 65,307 |
| Disbursements: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 5,727,930 | 5,651,469 | 5,198,396 | 453,073 |
| Special | 1,554,441 | 1,504,441 | 1,210,033 | 294,408 |
| Vocational | 134,027 | 134,027 | 98,857 | 35,170 |
| Student intervention services | 4,264 | 4,264 | - | 4,264 |
| Other | 677,566 | 672,566 | 690,726 | (18,160) |
| Support services: | | | | |
| Pupils | 480,055 | 478,055 | 382,157 | 95,898 |
| Instructional staff | 371,039 | 368,039 | 328,452 | 39,587 |
| Board of education | 75,202 | 70,202 | 34,511 | 35,691 |
| Administration | 1,034,139 | 974,139 | 928,000 | 46,139 |
| Fiscal | 340,522 | 325,522 | 283,571 | 41,951 |
| Operation and maintenance of plant | 893,169 | 893,169 | 796,846 | 96,323 |
| Pupil transportation | 944,748 | 904,748 | 838,508 | 66,240 |
| Central | 12,338 | 12,338 | 5,618 | 6,720 |
| Extracurricular activities | 360,752 | 360,752 | 353,613 | 7,139 |
| Total disbursements | 12,610,192 | 12,353,731 | 11,149,288 | 1,204,443 |
| Excess of receipts over (under) disbursements | (484,515) | 39,990 | 1,309,740 | 1,269,750 |
| Other financing receipts (disbursements): | | | | |
| Proceeds from sale of capital assets | 9 | 9 | 3,000 | 2,991 |
| Advances in | 80,000 | 80,000 | 80,000 | - |
| Advances out | (72,000) | (72,000) | - | 72,000 |
| Transfers in | 243 | 243 | 243 | - |
| Transfers out | (150,219) | (150,219) | (150,000) | 219 |
| Total other financing receipts (disbursements) | (141,967) | (141,967) | (66,757) | 75,210 |
| Net change in fund balance | (626,482) | (101,977) | 1,242,983 | 1,344,960 |
| Fund balance at beginning of year | 3,379,224 | 3,379,224 | 3,379,224 | - |
| Prior year encumbrances appropriated | 90,738 | 90,738 | 90,738 | - |
| Fund balance at end of year | \$ 2,843,480 | \$ 3,367,985 | \$ 4,712,945 | \$ 1,344,960 |

See accompanying notes to the basic financial statements.

Norwayne Local School District
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Funds
June 30, 2016

| | Private Purpose Trust | |
|--|--------------------------|-----------|
| | Scholarships | Agency |
| <u>Assets:</u> | | |
| Equity in pooled cash and cash equivalents | \$ 24,024 | \$ 81,846 |
| Total assets | \$ 24,024 | \$ 81,846 |
| <u>Net position:</u> | | |
| Held in trust for scholarships | \$ 24,024 | \$ - |
| Held for student activities | - | 81,846 |
| Total net position | \$ 24,024 | \$ 81,846 |

See accompanying notes to the basic financial statements.

Norwayne Local School District
Statement of Changes in Fiduciary Net Position - Cash Basis
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2016

| | Private Purpose Trust |
|--------------------------------|--------------------------|
| | Scholarship |
| <u>Additions:</u> | |
| Interest | \$ 47 |
| Gift and donations | 24,825 |
| Total additions | 24,872 |
| <u>Deductions:</u> | |
| Transfers out | 243 |
| Scholarship awards | 13,247 |
| Total deductions | 13,490 |
| Change in net position | 11,382 |
| Net position beginning of year | 12,642 |
| Net position end of year | \$ 24,024 |

See accompanying notes to the basic financial statements.

Norwayne Local School District
Wayne County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

1. SUMMARY OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Description of the Entity

Norwayne Local School District (the District), formerly known as North Central Local School District, is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The District provides educational services to approximately 1,400 students and community members as authorized by state statute and/or federal guidelines. The District was established in 1952 through the consolidation of existing school districts. The District serves an area of approximately 79 square miles, is located in Medina and Wayne County, and includes all of the Villages of Burbank, Creston, and Sterling.

Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities.

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

The District is associated with a jointly governed organization and a public entity risk pool. These organizations are the Tri-County Computer Services Association (TCCSA) and the Wayne County Schools Council for Health Care Benefit Program. These organizations are presented in Notes 12 and 13.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The District's accounts are maintained on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to specific functions or activities. The operation of each fund is accounted for within a separate set of self-balancing accounts.

Norwayne Local School District
Wayne County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Cash disbursements are assigned to the fund from which they are paid. The following are the District's major governmental funds:

General Fund

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

Bond Retirement Fund

The bond retirement fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

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

Fiduciary Funds

The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are not available to support the District's own programs. The District's private purpose trust funds account for programs that provide college scholarships to students after graduation and unclaimed money. Agency funds are custodial in nature. The District's agency fund accounts for various student-managed activities.

Basis of Presentation

The District uses the provisions of GASB Statement No. 34 for financial reporting on a cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America and GASB Statement No. 38, for certain financial statement note disclosures. The District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

Norwayne Local School District
Wayne County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Government-wide Financial Statements

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

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

Fund Financial Statements

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

Basis of Accounting

Although required by the Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), the District chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary disbursements when a commitment is made (i.e., when an encumbrance is approved). These statements include adequate disclosure of material matters, in accordance with the basis of accounting described above.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Norwayne Local School District
Wayne County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Cash Receipts – Exchange and Nonexchange Transactions

Cash receipts resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the cash basis when the exchange takes place. On a cash basis, receipts are recorded in the year in which the resources are received.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On a cash basis, receipts from property taxes and income taxes are recognized in the year in which the taxes are received. Receipts from grants, entitlements and donations are recognized in the year in which the monies have been received.

Cash Disbursements

On the cash basis of accounting, disbursements are recognized at the time payments are made.

Budgetary Process

Budget

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 appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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 Wayne County Budget Commissions 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 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. Budget receipts as shown in the accompanying financial statements do not include July 1, 2015 unencumbered fund balances. However, those fund balances were available for appropriation.

Norwayne Local School District
Wayne County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts reflect the amounts in the amended certificate in effect when the final appropriations for the fiscal year were passed.

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 District. The appropriate 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 any 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 amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire year, including amounts carried over from prior years. The budget figures that appear as the final budget, in the statement of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the disbursement of funds are recorded in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

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.

Norwayne Local School District
Wayne County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Cash and Cash Equivalents and Investments

Cash and cash equivalents consist of the total of fund cash balances of all funds as of June 30, 2016. To improve cash management, cash received by the District is pooled. Individual fund integrity is maintained throughout the District's records. Balances of all funds are maintained in these accounts or are temporarily used to purchase certificates of deposit or investments. Interest in the pool is presented as "equity in pooled cash and investments" on the financial statements. Investments of the District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are presented on the financial statements as part of "equity in pooled cash and investments".

During the fiscal year, investments were limited to instruments of government sponsored mortgage-backed securities, U.S. treasury notes and an interest in STAR Ohio, the State Treasurer's Investment Pool. The School District investment in the State Treasury Asset Reserve of Ohio (STAR Ohio) is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company and is recognized as an external investment pool by the School District. The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For the fiscal year 2016, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes

Capital Assets

Property, plant, and equipment acquired or constructed by the District are recorded as disbursements at the time of acquisition. However, under the cash basis of accounting as described in Note 2, capital assets and the related depreciation are not reported separately on the financial statements.

Pensions

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

Compensated Absences

Accumulated unpaid vacation leave, sick leave, and personal leave are not accrued under the cash basis of accounting as described in Note 2. All leave will either be utilized by time off from work or, within certain limitations, be paid to employees.

Norwayne Local School District
Wayne County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Long-term Obligations

In general, bonds, long-term loans, and capital leases are recorded as cash disbursements in the basic financial statements when paid and are not accrued under the cash basis of accounting as previously described in Note 2.

Fund Balance

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

Nonspendable: The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted: The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. 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 determined by a formal action (resolution) of the District Board of Education. Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for the use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. The purpose constraint that represents the intended use is established by the Board of Education or by their designated official. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District or by State statute. The Treasurer is authorized to assign fund balance using encumbrances for planned purchases, provided such amounts have been lawfully appropriated. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

Unassigned: The unassigned fund balance is the residual classification for the general fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

Norwayne Local School District
Wayne County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

Net Position

Net position represents the difference between assets and liabilities. On the cash basis of accounting net position equals assets since liabilities are not recorded. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted for other purposes is comprised of net position restricted for grants. The District applies restricted resources first when a cash disbursement is made for purposes for which both restricted and unrestricted net position is available. The District does not have net position restricted by enabling legislation.

Interfund Transactions

Exchange transactions between funds are reported as cash receipts in the seller funds and as cash disbursements in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing receipts/disbursements in governmental funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented on the financial statements. In the government-wide financial statements transfers within governmental activities are eliminated.

3. FUND BALANCES

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

4. DEPOSITS AND INVESTMENTS

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

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

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

Norwayne Local School District
Wayne County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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 within five years from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be invested in the following obligations provided they mature or are redeemable within five years from the date of settlement, unless the investment is matched to a specific obligation or debt of the School District and the investment is not a commercial paper note, a banker's acceptance or a repurchase agreement:

1. United States Treasury bills, notes, bonds, or any other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, 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 for a period not to exceed thirty days in 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;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in item (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Commercial paper notes, limited to 40% (5% for a single issuer) in total of the interim monies available for investment at any one time and for a period not to exceed two hundred seventy days; and
8. Bankers acceptances, limited to 40% of the interim monies available for investment at any one time and for a period not to exceed one hundred eighty days.

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.

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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.

During fiscal year 2016, investments were limited to STAR Ohio, Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA) bonds and US T-Notes. Investments are reported at cost.

All interest receipts are reported in the general fund except those specifically related to those funds deemed appropriate according to Board policy. For fiscal year 2016, interest receipts in the general fund are \$1,101 and of that amount, \$0 was assigned from other funds.

Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. The District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

At June 30, 2016, the District's deposits of \$1,035,121 were either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the District's name.

Investments:

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

| Investments: | Portfolio Ratio | Maturity (Years) | | |
|---|---------------------|---------------------|-------------------|-------------------|
| | | Less than 1 year | 2-3 years | 4-5 years |
| Government sponsored enterprise securities: | | | | |
| Federal Home Loan Mortgage Corp. | \$ 206,052 4% | \$ 206,052 | \$ - | \$ - |
| Federal National Mortgage Assn. | 198,835 4% | 198,835 | - | - |
| US Treasury Note | 1,706,683 32% | 451,312 | 683,594 | 571,777 |
| Star Ohio | 3,226,499 60% | 3,226,499 * | - | - |
| Total investments | <u>\$ 5,338,069</u> | <u>\$ 4,082,698</u> | <u>\$ 683,594</u> | <u>\$ 571,777</u> |

* Star Ohio's average days to maturity is 48.6.

Interest rate risk – As a means of limiting its exposure to fair value losses caused by rising interest rates, the District attempts, to the extent possible, to match investments with anticipated cash flow requirements. Unless matched to a specific obligation or debt of the District, the District will not directly invest in securities maturing more than five years from the date of investment.

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Credit risk – Investments in STAR Ohio were rated AAAM by Standard & Poor’s. In addition, Standard and Poor’s has assigned the investments in FHLMC and FNMA an AA+ rating. The District limits their investments to those authorized by state statute.

Custodial credit risk – Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The investments in FHLMC and FNMA are held by the counterparty’s trust department or agent and not in the District’s name. The District has no investment policy dealing with investment custodial credit risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

5. BUDGETARY BASIS FUND BALANCES

Differences between the budgetary basis fund balances and cash fund balances are due to encumbrances and perspective differences. The cash fund balance, as well as the cash receipts, cash disbursements, and other financing receipts and disbursements of the general fund include activity that is budgeted within special revenue funds. However, on the budgetary basis, the activity of special revenue funds is excluded resulting in perspective differences. The table below presents those differences for the District’s general fund:

| | General Fund |
|--|-----------------|
| Budgetary basis fund balance | \$ 4,712,945 |
| Budgeted as part of special revenue funds: | |
| Beginning cash fund balances | 79,722 |
| Receipts | 167,975 |
| Disbursements | (155,001) |
| Encumbrances | 58,166 |
| Cash basis fund balance | \$ 4,863,807 |

6. PROPERTY TAX

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

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

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Public utility property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2014, were levied after October 1, 2015 and are collected in 2015 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The Wayne County and Medina County Treasurers collect property tax on behalf of all taxing districts within the respective counties. The District receives property taxes from both counties. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the second half of fiscal year 2016 taxes collected are:

| <u>2015</u> <u>Property Category</u> | <u>Wayne</u> <u>County</u> | <u>Medina</u> <u>County</u> |
|---|-------------------------------|--------------------------------|
| <u>Real Property</u> | | |
| Residential and agricultural | \$ 151,052,570 | \$ 5,170,580 |
| Commercial, industrial and minerals | 10,399,160 | 8,250,260 |
| <u>Tangible Personal Property</u> | | |
| Public utilities | <u>4,131,470</u> | <u>379,560</u> |
| Total | <u>\$ 165,583,200</u> | <u>\$ 13,800,400</u> |

7. SCHOOL DISTRICT INCOME TAX

The District passed a 0.75 percent earned income only tax for general operations of the District beginning January 1, 2014 and ending December 31, 2018. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund and amounted to \$1,144,788 during fiscal year 2016.

8. LONG-TERM DEBT

Under the cash basis of accounting as described in Note 2, the District does not record debt in the accompanying basic financial statements.

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

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| | Interest Rate | Principal Outstanding 7/1/15 | Additions | Reductions | Principal Outstanding 6/30/16 | Due Within One Year |
|----------------------------|------------------|------------------------------------|-------------|-------------------|-------------------------------------|------------------------|
| General Obligation Bonds: | | | | | | |
| 2015 Refunding | | | | | | |
| Facility Improvement | | | | | | |
| Serial and term bonds | 1.00 - 4.00% | \$ 8,730,000 | \$ - | \$ 115,000 | \$ 8,615,000 | \$ 60,000 |
| Capital appreciation bonds | | 46,179 | - | - | 46,179 | - |
| 2007 Classroom | | | | | | |
| Facility Improvement | | | | | | |
| Capital appreciation bonds | | 214,986 | - | 113,882 | 101,104 | 101,104 |
| 2007 Various Purpose | | | | | | |
| Capital appreciation bonds | | 39,130 | - | 20,669 | 18,461 | 18,461 |
| Total | | <u>\$ 9,030,295</u> | <u>\$ -</u> | <u>\$ 249,551</u> | <u>\$ 8,780,744</u> | <u>\$ 179,565</u> |

The District reported additional debt service principal payments of \$240,449 for capital appreciation bonds.

In January 2015, the District issued \$8,776,179 in refunding general obligation bonds which included serial, term and capital appreciation bonds. The capital appreciation bonds mature in fiscal year 2022 with a par value of \$460,000. The 2015 Refunding Facility Improvement Bonds proceeds consisted of bond principal and \$839,226 of premium. The net proceeds of \$9,435,437 (after payment of underwriting fees, insurance, and other issuance costs) was deposited in an irrevocable trust with an escrow agent to provide for future debt service payments of the portion of the 2007 Classroom Facility Improvement Bonds refunded and the 2007 Various Purpose Bonds refunded. As a result, the bonds are considered to be defeased by the District. The District advance refunded the old bonds to reduce their total debt service payments over the next nineteen years and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$496,178. The bonds will be retired from the debt service fund.

The 2007 Classroom Facility Improvement Bonds were approved by the voters on November 7, 2006 and issued in 2007 for \$9,799,986 in general obligation bonds which include capital appreciation bonds. The bonds were used to redeem the bond anticipation notes issued by the District to provide for its share of the Ohio School Facility Commission classroom construction grant. The capital appreciation bonds mature in fiscal years 2016 and 2017 with par values of \$320,000 each. The bonds will be retired from the debt service fund.

The 2007 Various Purpose Bonds were approved by the voters on November 7, 2006 and issued in 2007 for a total of \$1,598,182 in general obligation bonds which include capital appreciation bonds. The bonds were used to redeem the bond anticipation notes issued by the District to provide for its share of the Ohio School Facility Commission classroom construction grant. The capital appreciation bonds mature in fiscal years 2016 and 2017 with par values of \$55,000 each. The bonds will be retired from the debt service fund.

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

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| Fiscal Year Ending June 30 | 2015 Refunding Facility Improvement Bonds | | | | 2007 Classroom Facilities Bonds | | |
|-------------------------------|---|------------|--------------|---------------|---------------------------------|------------|------------|
| | Compounded | | | | Compounded | | |
| | Principal | Interest | Interest | Total | Principal | Interest | Total |
| 2017 | \$ 60,000 | \$ - | \$ 263,200 | \$ 323,200 | \$ 101,104 | \$ 218,896 | \$ 320,000 |
| 2018 | 430,000 | - | 260,750 | 690,750 | - | - | - |
| 2019 | 440,000 | - | 255,300 | 695,300 | - | - | - |
| 2020 | 435,000 | - | 248,737 | 683,737 | - | - | - |
| 2021 | 450,000 | - | 238,725 | 688,725 | - | - | - |
| 2022-2026 | 2,156,179 | 238,821 | 1,027,112 | 3,422,112 | - | - | - |
| 2027-2031 | 2,770,000 | - | 629,375 | 3,399,375 | - | - | - |
| 2032-2034 | 1,920,000 | - | 117,600 | 2,037,600 | - | - | - |
| Total | \$ 8,661,179 | \$ 238,821 | \$ 3,040,799 | \$ 11,940,799 | \$ 101,104 | \$ 218,896 | \$ 320,000 |

| Fiscal Year Ending June 30 | 2007 Various Purpose Bonds | | |
|-------------------------------|----------------------------|-----------|-----------|
| | Compounded | | |
| | Principal | Interest | Total |
| 2017 | \$ 18,461 | \$ 36,539 | \$ 55,000 |

9. RISK MANAGEMENT

The District maintains comprehensive insurance coverage with an independent third party for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and building contents are 100% coinsured. Settled claims have not exceeded this coverage in any of the past three years. There has been no significant reduction in coverage from the prior year.

The District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria.

The District also participates in the Medina and Wayne County Health Trust in order to provide dental, life, medical, and disability benefits to employees, their dependents and designated beneficiaries. The Trustee provides insurance policies in whole or in part through one or more group insurance policies.

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10. DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

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

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

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

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

A. DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

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

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Age and service requirements for retirement are as follows:

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

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

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

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

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

The District’s contractually required contribution to SERS was \$196,651 for fiscal year 2016.

State Teachers Retirement System

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

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New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement 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 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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

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

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

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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. Effective July 1, 2016 the statutory maximum employee contribution rate was increased to 14 percent. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The District’s contractually required contribution to STRS was \$722,053 for fiscal year 2016.

Net Pension Liability

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

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|-------------|--------------|--------------|
| Proportionate share of the net pension liability | \$2,923,593 | \$13,194,390 | \$16,117,983 |
| Proportion of the net pension liability | 0.051236% | 0.0477416% | |

Actuarial Assumptions - SERS

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

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

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

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

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| | |
|--|--|
| Wage inflation | 3.25 percent |
| Future salary increases, including inflation | 4 percent to 22 percent |
| COLA or Ad Hoc COLA | 3 percent |
| Investment rate of return | 7.75 percent net of investments expense, including inflation |
| Actuarial cost method | Entry age normal |

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

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

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long Term Expected Real Rate of Return</u> |
|------------------------|--------------------------|---|
| Cash | 1.00 % | 0.00 % |
| US stocks | 22.50 | 5.00 |
| Non-US stocks | 22.50 | 5.50 |
| Fixed income | 19.00 | 1.50 |
| Private equity | 10.00 | 10.00 |
| Real assets | 10.00 | 5.00 |
| Multi-asset strategies | <u>15.00</u> | 7.50 |
| Total | <u><u>100.00 %</u></u> | |

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

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| | 1% Decrease <u>(6.75%)</u> | Current Discount Rate <u>(7.75%)</u> | 1% Increase <u>(8.75%)</u> |
|--|-------------------------------|--|-------------------------------|
| District's proportionate share of the net pension liability | \$ 4,053,973 | \$2,923,593 | \$1,971,720 |

Actuarial Assumptions - STRS

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

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

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

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

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

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

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Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

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

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| District's proportionate share of the net pension liability | \$18,328,003 | \$13,194,390 | \$8,853,155 |

B. POSTEMPLOYMENT BENEFITS

School Employees Retirement System

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

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

Norwayne Local School District
Wayne County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

The District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$22,833, \$12,445, and \$2,328, respectively, which equaled the required allocations for those years.

State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0, \$51,331 respectively, which equaled the required allocations for those years.

11. REQUIRED SET-ASIDES

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

Norwayne Local School District
Wayne County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

| | Capital Maintenance |
|---|------------------------|
| Set-aside reserve balance as of June 30, 2015 | \$ - |
| Current year set-aside requirement | 236,055 |
| Current year offsets | (699,385) |
| Qualifying disbursements | (130,490) |
| Totals | (593,820) |
| Set-aside balance carried forward to future fiscal years | \$ - |

Although, the District had qualifying disbursements and current year offsets during the fiscal year that reduced the set-aside amount to below zero for the capital maintenance reserve, this amount may not be used to reduce the set aside requirement for future years. This negative balance is, therefore, not presented as being carried forward to future years.

12. JOINTLY GOVERNED ORGANIZATION

The Tri-County Computer Services Association (TCCSA) is a jointly governed organization comprised of 29 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member districts. Each of the governments of these districts support TCCSA based on a per-pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating district and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating districts are located. Financial information can be obtained by contacting the executive director at TCCSA located in Wooster, Ohio. During the year, the District paid approximately \$103,911 to TCCSA for basic service charges.

13. PUBLIC ENTITY RISK POOL

The Wayne County Schools Council for Health Care Benefit Program is a shared risk pool created pursuant to state statute for the purpose of administering health care benefits. The Council is governed by an assembly which consists of one representative from each participating school district (usually superintendent, treasurer or executive member of governing body). The Council elects officers to serve on the Board of Directors. The assembly exercises control over the operation of the Council. Council revenues are generated from charges for services received from participating school districts, based on the established premiums for the insurance plans. Each school district reserves the right to terminate the plan in whole or in part, at any time. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with the terms of the contract.

Norwayne Local School District
Wayne County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

14. CONTINGENCIES

A. Grants

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

B. Litigation

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

C. Full Time Equivalency

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

15. INTERFUND ACTIVITY

Interfund Transfers and Advances

Transfers made during the year ended June 30, 2016, were as follows:

| | | |
|---------------------------------|----|---------|
| Transfers from general fund to: | | |
| Nonmajor governmental fund | \$ | 150,000 |
| Transfers to general fund from: | | |
| Private purpose trust fund | | 243 |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

All transfers were made in compliance with Ohio Revised Code sections 5705.14, 5705.15 and 5705.16.

Norwayne Local School District
Wayne County
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Advances made during the year ended June 30, 2016, were as follows:

| <u>Fund:</u> | <u>Advance To:</u> | <u>Advance From:</u> |
|-----------------------------|--------------------|----------------------|
| General fund | \$ 80,000 | \$ - |
| Nonmajor governmental funds | - | 80,000 |
| Total | <u>\$ 80,000</u> | <u>\$ 80,000</u> |

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2016, all advances outstanding are anticipated to be repaid in fiscal year 2017.

16. OTHER COMMITMENTS

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

| <u>Fund:</u> | <u>Year-end Encumbrances</u> |
|-----------------------------|------------------------------|
| General fund | \$ 76,395 |
| Nonmajor governmental funds | 192,034 |
| Total | <u>\$ 268,429</u> |



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

Norwayne Local School District
Wayne County
161 S. Main Street
Creston, Ohio 44217

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Norwayne Local School District, Wayne County, Ohio, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Norwayne Local School District's basic financial statements and have issued our report thereon dated December 27, 2016, wherein we noted the Norwayne Local School District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

Board of Education
Norwayne Local School District

Compliance and Other Matters

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

Norwayne Local School District's Response to Findings

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

Purpose of this Report

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



Julian & Grube, Inc.
December 27, 2016

**NORWAYNE LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016**

| FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS | |
|--|----------|
| Finding Number | 2016-001 |

Noncompliance

Ohio Revised Code Section 117.38 provides each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Revised Code Section 117.38.

Ohio Administrative Code Section 117-2-03(B) requires the District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP). The District prepares its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This presentation differs from (GAAP). There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. Failure to prepare proper GAAP financial statements may result in the District being fined or other administrative remedies.

The District should prepare its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Client Response: Cash based reporting with consideration of encumbrances, reserves, and adequate footnotes effectively and efficiently meet the needs of our Board and Citizens. The use of GAAP does not ensure integrity nor does GAAP application make accounting "better" to the user.

All of the District's legal appropriations and forecasts as required by the state are on a cash basis presentation and not on a GAAP basis. The rising complexity and cost associated with GAAP rules, interpretations, presentation and subsequent audits are driving a movement to the use of Special Purpose Framework presentation.

The Norwayne Local School's Board of Education has determined that the use of OCBOA or Special-Purpose Framework presentation is cost effective and provides users a clear picture of the District's results, and is consistent with the legal requirements of other state submissions such as the five-year forecast and annual required tax budget.

**NORWAYNE LOCAL SCHOOL DISTRICT
WAYNE COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2016**

| <u>Finding Number</u> | <u>Finding Summary</u> | <u>Fully Corrected?</u> | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|------------------------------|--|--------------------------------|---|
| 2015-001 | <u>Noncompliance</u> - Ohio Admin. Code § 117-2-03(B) requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the District prepares its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles accepted in the United States of America. | No | Repeated as finding 2016-001 |

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Dave Yost • Auditor of State

NORWAYNE LOCAL SCHOOL DISTRICT

WAYNE 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 6, 2017**