



Dave Yost • Auditor of State



**JOSEPH BADGER LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Joseph Badger Local School District  
Trumbull County  
7119 State Route 7  
Kinsman, Ohio 44428

To the Board of Education:

### ***Report on the Financial Statements***

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

**Opinion**

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

**Other Matters**

*Required Supplementary Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 26, 2018

## **Joseph Badger Local School District**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
Unaudited*

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

### **Financial Highlights**

Key financial highlights for 2016 are as follows:

- ❑ Net position of governmental activities increased in fiscal year 2016 from the continued principal payments on outstanding debt obligations and an increase in general revenues offset by annual depreciation of capital assets.
- ❑ Governmental activities reflected an overall increase in revenues over fiscal year 2015 from an increase in unrestricted grants and entitlements as the School District continues to seek out additional sources of revenue.
- ❑ Capital asset additions in fiscal year 2016 included a John Deere tractor, hot water heater, and a camera server, among other items.
- ❑ The School District's enrollment decreased from 867 students in fiscal year 2015 to 793 students in fiscal year 2016.

### **Using this Annual Financial Report**

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

The Statement of Net Position and the Statement of Activities provide information about the activities of the whole School District, presenting both an aggregate and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements explain how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Joseph Badger Local School District, the general fund and the bond retirement debt service fund are by far the most significant funds.

### **Reporting the School District as a Whole**

#### *Statement of Net Position and the Statement of Activities*

While these statements contain information about the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all non-fiduciary assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting, similar to the accounting used by most

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

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private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Position and the Statement of Activities, the School District's activities are classified as governmental and business-type. All of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, operation of food services and extracurricular activities.

### **Reporting the School District's Most Significant Funds**

The analysis of the School District's major funds begins on page 12. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the bond retirement debt service fund.

***Governmental Funds*** Most of the School 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 an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

***Proprietary Funds*** The Board of Education charges students a fee for school lunches. The money collected locally combined with State and Federal reimbursements, is intended to defray all expenses necessary to operate the food service program. Each month the Board reviews food service fund projections to judge how much negative impact will be placed on the general fund. The School District also has a preschool program where tuition is paid for children to attend. Additionally, the School District operates a dental fund designed to defray unforeseen healthcare expenses. It is the School District's belief that these funds provide additional stability to the five year forecast. Proprietary funds utilize the same form of accounting as business-type activities, therefore these statements match those found in the district-wide statements.

### **The School District as a Trustee**

The School District is a trustee or fiduciary for two funds. One of these funds holds and invests the principal amount and provides the earnings in the form of a scholarship for graduating seniors. The other fund accounts for money collected for student activities. There is no School District related activity occurring within these funds.



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

**The School District as a Whole**

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for fiscal year 2016 compared to fiscal year 2015:

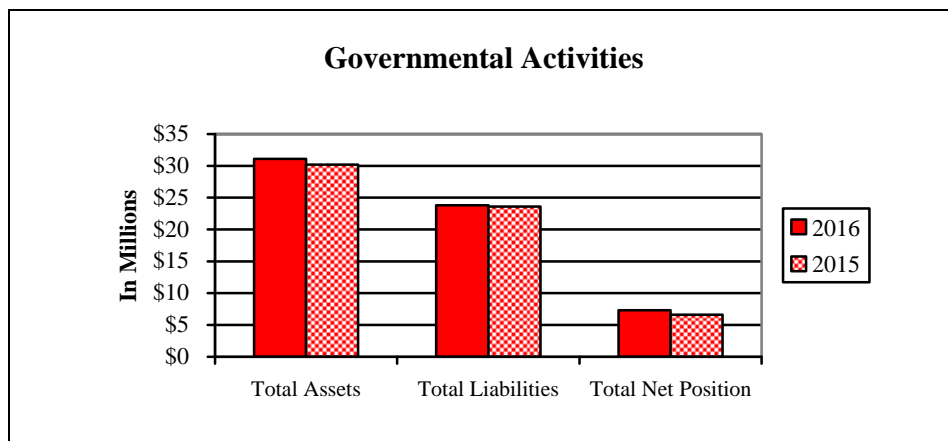
**Table 1**  
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Assets</b>						
Current and Other Assets	\$9,166,218	\$7,649,806	\$127,577	\$105,417	\$9,293,795	\$7,755,223
Capital Assets, Net	20,425,394	21,504,605	139,962	150,341	20,565,356	21,654,946
<i>Total Assets</i>	<u>29,591,612</u>	<u>29,154,411</u>	<u>267,539</u>	<u>255,758</u>	<u>29,859,151</u>	<u>29,410,169</u>
<b>Deferred Outflows of Resources</b>						
Deferred Charge on Refunding	418,949	445,978	0	0	418,949	445,978
Pension	1,102,944	637,033	32,622	19,179	1,135,566	656,212
<i>Total Deferred Outflows of Resources</i>	<u>1,521,893</u>	<u>1,083,011</u>	<u>32,622</u>	<u>19,179</u>	<u>1,554,515</u>	<u>1,102,190</u>
<b>Liabilities</b>						
Current and Other Liabilities	723,232	744,995	33,347	21,651	756,579	766,646
Long-Term Liabilities:						
Due Within One Year	526,949	565,275	1,315	3,262	528,264	568,537
Due in More Than One Year						
Net Pension Liability	9,963,764	9,131,135	250,339	211,073	10,214,103	9,342,208
Other Amounts	7,677,827	7,885,107	9,455	9,064	7,687,282	7,894,171
<i>Total Liabilities</i>	<u>18,891,772</u>	<u>18,326,512</u>	<u>294,456</u>	<u>245,050</u>	<u>19,186,228</u>	<u>18,571,562</u>
<b>Deferred Inflows of Resources</b>						
Property Taxes	3,718,825	3,595,009	0	0	3,718,825	3,595,009
Pension	1,160,206	1,660,026	10,626	35,152	1,170,832	1,695,178
<i>Total Deferred Inflows of Resources</i>	<u>4,879,031</u>	<u>5,255,035</u>	<u>10,626</u>	<u>35,152</u>	<u>4,889,657</u>	<u>5,290,187</u>
<b>Net Position</b>						
Net Investment in Capital Assets	13,784,098	14,735,564	139,962	150,341	13,924,060	14,885,905
Restricted for:						
Capital Projects	876,815	566,611	0	0	876,815	566,611
Debt Service	607,998	611,235	0	0	607,998	611,235
Other Purposes	77,373	105,747	0	0	77,373	105,747
Unrestricted (Deficit)	(8,003,582)	(9,363,282)	(144,883)	(155,606)	(8,148,465)	(9,518,888)
<i>Total Net Position</i>	<u>\$7,342,702</u>	<u>\$6,655,875</u>	<u>(\$4,921)</u>	<u>(\$5,265)</u>	<u>\$7,337,781</u>	<u>\$6,650,610</u>

**Joseph Badger Local School District**  
*Management's Discussion and Analysis*  
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*Unaudited*

**Graph 1**  
**Net Position**  
(In Millions)

	2016	2015
Total Assets and Deferred Outflows of Resources	\$31.1	\$30.2
Total Liabilities and Deferred Inflows of Resources	23.8	23.6
Total Net Position	\$7.3	\$6.6



The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2016 and is reported pursuant to GASB Statement 68, “Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27.” For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District’s actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

GASB 68 requires the net pension liability to equal the School District’s proportionate share of each plan’s collective:

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

GASB notes that pension obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the

## Joseph Badger Local School District

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2016  
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promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

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

Total assets for the School District increased in large part from an increase in unrestricted grants and entitlements.

Total liabilities increased from the prior fiscal year due an increase in the net pension liability which was slightly offset by the annual debt payments.

The vast majority of revenue supporting all activities is general revenue. The most significant portion of the general revenue is the grants and entitlements not restricted to specific programs. Joseph Badger proactively seeks out Federal and State funding sources in the forms of grants to ensure that programs of the School District are properly funded. The remaining source of revenue lies in program revenues which are restricted in use to a specific program.

In order to further understand what makes up the changes in net position for the current fiscal year, the following table gives readers further details regarding the results of activities for the current fiscal year. Table 2 shows total revenues, expenses and changes in net position for the fiscal years 2016 and 2015.

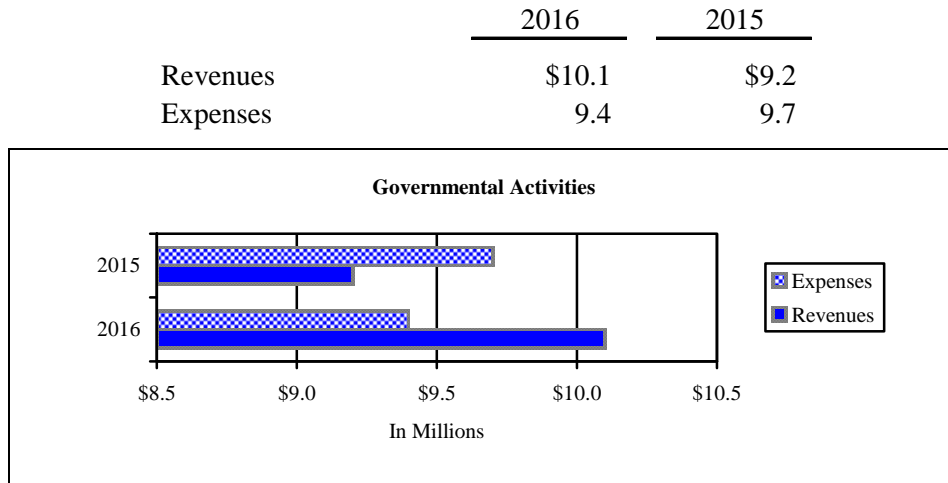
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**Table 2**  
 Program Revenues and Expenses

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Program Revenues</b>						
Charges for Services and Sales	\$288,855	\$312,514	\$166,321	\$142,635	\$455,176	\$455,149
Operating Grants and Contributions	847,718	846,762	245,320	235,058	1,093,038	1,081,820
<i>Total Program Revenues</i>	<u>1,136,573</u>	<u>1,159,276</u>	<u>411,641</u>	<u>377,693</u>	<u>1,548,214</u>	<u>1,536,969</u>
<b>General Revenues</b>						
Property Taxes	3,668,352	3,626,448	0	0	3,668,352	3,626,448
Grants and Entitlements not Restricted to Specific Programs	5,022,551	4,392,653	0	0	5,022,551	4,392,653
Unrestricted Contributions	2,000	0	0	0	2,000	0
Investment Earnings	12,478	5,654	181	61	12,659	5,715
Gain on Sale of Capital Assets	0	2,500	0	0	0	2,500
Miscellaneous	222,062	2,580	22,135	22,711	244,197	25,291
<i>Total General Revenues</i>	<u>8,927,443</u>	<u>8,029,835</u>	<u>22,316</u>	<u>22,772</u>	<u>8,949,759</u>	<u>8,052,607</u>
<i>Total Revenues</i>	<u>10,064,016</u>	<u>9,189,111</u>	<u>433,957</u>	<u>400,465</u>	<u>10,497,973</u>	<u>9,589,576</u>
<b>Program Expenses</b>						
Instruction:						
Regular	3,980,577	4,214,963	0	0	3,980,577	4,214,963
Special	946,828	1,010,395	0	0	946,828	1,010,395
Vocational	7,325	30,145	0	0	7,325	30,145
Student Intervention Services	83,019	91,250	0	0	83,019	91,250
Support Services:						
Pupil	363,722	374,124	0	0	363,722	374,124
Instructional Staff	70,520	36,394	0	0	70,520	36,394
Board of Education	57,814	45,936	0	0	57,814	45,936
Administration	609,612	725,724	0	0	609,612	725,724
Fiscal	408,451	367,730	0	0	408,451	367,730
Operation and Maintenance of Plant	762,404	717,050	0	0	762,404	717,050
Pupil Transportation	742,427	802,725	0	0	742,427	802,725
Central	149,565	120,010	0	0	149,565	120,010
Operation of Non-Instructional Services	560,960	522,162	0	0	560,960	522,162
Extracurricular Activities	261,472	263,667	0	0	261,472	263,667
Interest and Fiscal Charges	372,493	362,631	0	0	372,493	362,631
Food Service	0	0	400,500	393,565	400,500	393,565
Pre-Kindergarten	0	0	33,113	15,154	33,113	15,154
<i>Total Program Expenses</i>	<u>9,377,189</u>	<u>9,684,906</u>	<u>433,613</u>	<u>408,719</u>	<u>9,810,802</u>	<u>10,093,625</u>
<i>Change in Net Position</i>	686,827	(495,795)	344	(8,254)	687,171	(504,049)
<i>Net Position Beginning of Year</i>	<u>6,655,875</u>	<u>7,151,670</u>	<u>(5,265)</u>	<u>2,989</u>	<u>6,650,610</u>	<u>7,154,659</u>
<i>Net Position End of Year</i>	<u>\$7,342,702</u>	<u>\$6,655,875</u>	<u>(\$4,921)</u>	<u>(\$5,265)</u>	<u>\$7,337,781</u>	<u>\$6,650,610</u>

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

**Graph 2**  
**Governmental Revenues and Expenses**  
(In Millions)



***Governmental Activities***

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a voted levy does not increase solely as a result of inflation. It increases as a result of new construction or collection from a new voted levy. Although school districts experience inflationary growth in expenses, tax revenue does not keep pace with the increased expenses due to House Bill 920. As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay less than \$35.00 and the School District would collect the same dollar value the levy generated in the year it passed. The 10 percent rollback on all residential/agricultural property and the 2.5 percent rollback on all owner occupied homes would reduce the amount of taxes paid.

Thus school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service.

Instruction expenses comprise the largest portion of all program expenses for the School District. These expenses pay for teacher salary and benefits which increase at set levels every year through negotiated agreements.

***Business-Type Activities***

The City operates two business-type activities, the food service and pre-kindergarten. These two activities generated operating revenues of \$158,906 from food service and \$29,550 from pre-kindergarten. Food service and pre-kindergarten expenses including interest and fiscal charges for fiscal year 2016 amounted to \$400,500 and \$33,113, respectively.

**Joseph Badger Local School District**  
*Management's Discussion and Analysis*  
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The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**Table 3**  
 Total and Net Cost of Program Services  
 Governmental Activities

	2016		2015	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
<b>Program Expenses</b>				
Instruction	\$5,017,749	\$4,074,371	\$5,346,753	\$4,401,117
Support Services:				
Pupil and Instructional Staff	434,242	418,915	410,518	387,311
Board of Education, Administration, and Fiscal	1,075,877	1,045,724	1,139,390	1,101,951
Operation and Maintenance of Plant	762,404	717,577	717,050	669,506
Pupil Transportation	742,427	724,112	802,725	778,665
Central	149,565	140,153	120,010	110,723
Operation of Non-Instructional Services	560,960	544,884	522,162	504,588
Extracurricular Activities	261,472	202,387	263,667	209,138
Interest and Fiscal Charges	372,493	372,493	362,631	362,631
<i>Total</i>	\$9,377,189	\$8,240,616	\$9,684,906	\$8,525,630

The dependence upon general revenues for governmental activities is apparent as they account for 88.71 percent of the total revenues in fiscal year 2016. This amount was 87.38 percent in 2015. The community, as a whole, is by far the primary support for Joseph Badger Local School District students.

**The School District's Funds**

Information about the School District's major funds begins with the balance sheet. These funds are accounted for using the modified accrual basis of accounting. The general fund had a increase in fund balance due mainly to an increase in intergovernmental revenues coupled with decreases in instruction expenses from the lower enrollment in fiscal year 2016. The bond retirement fund had a slight decrease in fund balance from a decrease in property tax revenues and the School District being required to make the annual principal and interest payment on outstanding debt issues.

**General Fund Budgeting Highlights**

The School 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 fund to be budgeted is the main operating fund of the School District, the general fund.

During the course of fiscal year 2016, the School District amended its general fund by a small percentage. The School District uses an operational unit budget process and has in place systems that are designed to tightly control expenditures but provide flexibility for program based decision and management.

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*Unaudited*

For the general fund, the final budget basis revenue was greater than the original budget estimate. The change was attributed to increases in estimates for intergovernmental revenues. Actual expenditures closely match the final budget amount. The School District's unencumbered ending cash balance totaled \$2,995,797.

**Capital Assets and Debt Administration**

***Capital Assets***

Table 4 shows fiscal 2016 balances compared to fiscal 2015:

**Table 4**  
 Capital Assets at June 30  
 (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$528,682	\$528,682	\$0	\$0	\$528,682	\$528,682
Land Improvements	2,241,717	2,454,274	0	0	2,241,717	2,454,274
Buildings and Improvements	16,858,456	17,618,617	0	0	16,858,456	17,618,617
Furniture and Equipment	665,205	678,184	139,962	150,341	805,167	828,525
Vehicles	111,268	199,768	0	0	111,268	199,768
Textbooks	20,066	25,080	0	0	20,066	25,080
<i>Total Capital Assets</i>	<u>\$20,425,394</u>	<u>\$21,504,605</u>	<u>\$139,962</u>	<u>\$150,341</u>	<u>\$20,565,356</u>	<u>\$21,654,946</u>

For fiscal year 2016, capital assets decreased due to depreciation exceeding additions of a John Deere tractor, a hot water heater, camera server, other various pieces of equipment and textbooks to capital assets. See Note 8 to the basic financial statements for detail on the School District's capital assets.

***Debt***

At June 30, 2016 the School District had general obligation bonds outstanding. Table 5 summarizes the outstanding debt.

**Table 5**  
 Outstanding Debt at Fiscal Year End  
 Governmental Activities

	2016	2015
2003 New School Construction		
Capital Appreciation Bonds	\$27,396	\$60,341
Accretion on Capital Appreciation Bonds	296,183	530,791
Unamortized Premium	13,655	27,310
2012 Various Purpose Refunding Bonds		
Serial Bonds	6,405,000	6,405,000
Term Bonds	75,000	150,000
Capital Appreciation Bonds	24,997	24,997
Accretion on Capital Appreciation Bonds	271,901	141,982
Unamortized Premium	514,197	547,371
Net Pension Liability	9,963,764	9,131,135
<i>Total</i>	<u>\$17,592,093</u>	<u>\$17,018,927</u>

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

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The School District's overall legal debt margin increased to \$4.64 million. See Note 15 to the basic financial statements for detail on the School District's long-term obligations.

### **School District Outlook**

The State of Ohio continues to place pressure on the resources of local districts through funding cuts. Moving to a single new building resulted in operational efficiencies that offset future revenue cuts from the State.

The School District is determined to do all that it can to remain solvent and to avoid passing a new levy. The School District currently has two emergency levies. This levy position is precarious because these levies require voter approval at the end of their ten year lives and also because the dollar amount is fixed and does not compensate for inflation. The Board has discussed several alternative tax strategies.

We are dependent on outside factors for our future success. The Ohio School Funding Formula provides most of the revenue for Joseph Badger Local Schools. While a substantial increase in the State's financial efforts would be justified and welcomed, our five year forecasts do not take this possibility into account.

The health care insurance consortium to which Joseph Badger belongs has a reasonable cash balance. Health care costs containment has become a large issue for the future. Management negotiated a contract that will require employee contributions, increased office co-pays, increased drug co-pays and higher deductibles. Additionally, employees were required to have their spouses take single coverage if they were eligible at a reasonable cost of below \$100 per month. This ensures that the claims of spouses stay with the responsible employer.

Joseph Badger Local School District has teachers approaching retirement. Often if a senior teacher retires, they are replaced at a much lower cost. This will have a positive effect on School District finances.

### **Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information please contact Gregory Sciola, Treasurer at Joseph Badger Local School District, 7119 St. Rt. 7, Kinsman, Ohio 44428 or call (330) 876-2812 or e-mail [Gregory.Sciola@Neomin.org](mailto:Gregory.Sciola@Neomin.org).



**Joseph Badger Local School District**

*Statement of Net Position*

*June 30, 2016*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$4,895,955	\$82,690	\$4,978,645
Accounts Receivable	104,110	17,571	121,681
Intergovernmental Receivable	54,456	27,316	81,772
Accrued Interest Receivable	1,819	0	1,819
Property Taxes Receivable	4,109,878	0	4,109,878
Nondepreciable Capital Assets	528,682	0	528,682
Depreciable Capital Assets, Net	19,896,712	139,962	20,036,674
<i>Total Assets</i>	<u>29,591,612</u>	<u>267,539</u>	<u>29,859,151</u>
<b>Deferred Outflows of Resources</b>			
Deferred Charge on Refunding Pension	418,949	0	418,949
	1,102,944	32,622	1,135,566
<i>Total Deferred Outflows of Resources</i>	<u>1,521,893</u>	<u>32,622</u>	<u>1,554,515</u>
<b>Liabilities</b>			
Accounts Payable	24,158	6,888	31,046
Contracts Payable	408	0	408
Accrued Wages and Benefits	522,767	18,533	541,300
Matured Compensated Absences Payable	0	4,097	4,097
Intergovernmental Payable	133,623	3,829	137,452
Accrued Interest Payable	14,960	0	14,960
Claims Payable	27,316	0	27,316
Long-Term Liabilities:			
Due Within One Year	526,949	1,315	528,264
Due In More Than One Year			
Net Pension Liability (See Note 10)	9,963,764	250,339	10,214,103
Other Amounts	7,677,827	9,455	7,687,282
<i>Total Liabilities</i>	<u>18,891,772</u>	<u>294,456</u>	<u>19,186,228</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes	3,718,825	0	3,718,825
Pension	1,160,206	10,626	1,170,832
<i>Total Deferred Inflows of Resources</i>	<u>4,879,031</u>	<u>10,626</u>	<u>4,889,657</u>
<b>Net Position</b>			
Net Investment in Capital Assets	13,784,098	139,962	13,924,060
Restricted for:			
Capital Projects	876,815	0	876,815
Debt Service	607,998	0	607,998
Other Purposes	77,373	0	77,373
Unrestricted (Deficit)	(8,003,582)	(144,883)	(8,148,465)
<i>Total Net Position</i>	<u>\$7,342,702</u>	<u>(\$4,921)</u>	<u>\$7,337,781</u>

See accompanying notes to the basic financial statements

**Joseph Badger Local School District**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2016*

	Program Revenues		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
<b>Governmental Activities</b>			
Instruction:			
Regular	\$3,980,577	\$119,271	\$53,458
Special	946,828	16,082	750,217
Vocational	7,325	201	1,642
Student Intervention Services	83,019	2,507	0
Support Services:			
Pupil	363,722	10,566	0
Instructional Staff	70,520	1,892	2,869
Board of Education	57,814	1,614	0
Administration	609,612	17,328	0
Fiscal	408,451	11,211	0
Operation and Maintenance of Plant	762,404	19,842	24,985
Pupil Transportation	742,427	18,315	0
Central	149,565	4,012	5,400
Operation of Non-Instructional Services	560,960	16,076	0
Extracurricular Activities	261,472	49,938	9,147
Interest and Fiscal Charges	372,493	0	0
<i>Total Governmental Activities</i>	<u>9,377,189</u>	<u>288,855</u>	<u>847,718</u>
<b>Business-Type Activities</b>			
Food Service	400,500	136,771	245,320
Pre-Kindergarten	33,113	29,550	0
<i>Total Business-Type Activities</i>	<u>433,613</u>	<u>166,321</u>	<u>245,320</u>
<b>Totals</b>	<u><u>\$9,810,802</u></u>	<u><u>\$455,176</u></u>	<u><u>\$1,093,038</u></u>

**General Revenues**

- Property Taxes Levied for:
  - General Purposes
  - Debt Service
  - Capital Outlay
- Grants and Entitlements not Restricted to Specific Programs
- Unrestricted Contributions
- Investment Earnings
- Miscellaneous

*Total General Revenues*

Change in Net Position

*Net Position Beginning of Year*

*Net Position End of Year*

See accompanying notes to the basic financial statements

Net (Expense) Revenue  
and Changes in Net Position

Governmental Activities	Business-Type Activity	Total
(\$3,807,848)	\$0	(\$3,807,848)
(180,529)	0	(180,529)
(5,482)	0	(5,482)
(80,512)	0	(80,512)
(353,156)	0	(353,156)
(65,759)	0	(65,759)
(56,200)	0	(56,200)
(592,284)	0	(592,284)
(397,240)	0	(397,240)
(717,577)	0	(717,577)
(724,112)	0	(724,112)
(140,153)	0	(140,153)
(544,884)	0	(544,884)
(202,387)	0	(202,387)
(372,493)	0	(372,493)
(8,240,616)	0	(8,240,616)
0	(18,409)	(18,409)
0	(3,563)	(3,563)
0	(21,972)	(21,972)
(8,240,616)	(21,972)	(8,262,588)
3,121,830	0	3,121,830
501,320	0	501,320
45,202	0	45,202
5,022,551	0	5,022,551
2,000	0	2,000
12,478	181	12,659
222,062	22,135	244,197
8,927,443	22,316	8,949,759
686,827	344	687,171
6,655,875	(5,265)	6,650,610
\$7,342,702	(\$4,921)	\$7,337,781

**Joseph Badger Local School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2016*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$3,360,646	\$567,083	\$945,330	\$4,873,059
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	4,632	0	0	4,632
Property Taxes Receivable	3,471,697	586,211	51,970	4,109,878
Accounts Receivable	104,110	0	0	104,110
Accrued Interest Receivable	1,819	0	0	1,819
Intergovernmental Receivable	7,918	0	46,538	54,456
Interfund Receivable	26,059	0	0	26,059
<i>Total Assets</i>	<u>\$6,976,881</u>	<u>\$1,153,294</u>	<u>\$1,043,838</u>	<u>\$9,174,013</u>
<b>Liabilities</b>				
Accounts Payable	\$21,857	\$0	\$2,301	\$24,158
Contracts Payable	408	0	0	408
Accrued Wages and Benefits	481,524	0	41,243	522,767
Interfund Payable	0	0	26,059	26,059
Intergovernmental Payable	127,450	0	6,173	133,623
<i>Total Liabilities</i>	<u>631,239</u>	<u>0</u>	<u>75,776</u>	<u>707,015</u>
<b>Deferred Inflows of Resources</b>				
Property Taxes	3,141,456	530,336	47,033	3,718,825
Unavailable Revenue	329,787	54,478	35,612	419,877
<i>Total Deferred Inflows of Resources</i>	<u>3,471,243</u>	<u>584,814</u>	<u>82,645</u>	<u>4,138,702</u>
<b>Fund Balances</b>				
Nonspendable	4,632	0	0	4,632
Restricted	0	568,480	943,152	1,511,632
Committed	76,191	0	0	76,191
Assigned	285,561	0	0	285,561
Unassigned (Deficit)	2,508,015	0	(57,735)	2,450,280
<i>Total Fund Balances</i>	<u>2,874,399</u>	<u>568,480</u>	<u>885,417</u>	<u>4,328,296</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$6,976,881</u>	<u>\$1,153,294</u>	<u>\$1,043,838</u>	<u>\$9,174,013</u>

See accompanying notes to the basic financial statements

**Joseph Badger Local School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 June 30, 2016*

<b>Total Governmental Fund Balances</b>	\$4,328,296
 <i>Amounts reported for governmental activities in the statement of    net position are different because</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	20,425,394
Other long-term assets, such as delinquent property taxes, are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds.	
Delinquent Property Taxes	381,277
Intergovernmental	<u>38,600</u>
Total	419,877
An internal service fund is used by management to charge the costs of dental insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	(9,052)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(14,960)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:	
Deferred Outflows - Pension	1,102,944
Deferred Inflows - Pension	(1,160,206)
Net Pension Liability	<u>(9,963,764)</u>
Total	(10,021,026)
Long-term liabilities payable are not due and payable in the current period and therefore are not reported in the funds.	
General Obligation Bonds	(7,628,329)
Compensated Absences	(576,447)
Deferred Charge on Refunding	<u>418,949</u>
Total	<u>(7,785,827)</u>
<i>Net Position of Governmental Activities</i>	<u><u>\$7,342,702</u></u>

See accompanying notes to the basic financial statements

**Joseph Badger Local School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2016*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$3,081,863	\$501,940	\$44,878	\$3,628,681
Intergovernmental	5,201,672	110,267	514,516	5,826,455
Interest	12,478	0	0	12,478
Tuition and Fees	206,822	0	0	206,822
Extracurricular Activities	3,641	0	41,199	44,840
Contributions and Donations	2,000	0	9,147	11,147
Charges for Services	37,193	0	0	37,193
Miscellaneous	221,802	0	260	222,062
<i>Total Revenues</i>	<u>8,767,471</u>	<u>612,207</u>	<u>610,000</u>	<u>9,989,678</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	2,938,023	0	63,999	3,002,022
Special	555,625	0	410,582	966,207
Vocational	7,005	0	0	7,005
Student Intervention Services	87,490	0	0	87,490
Support Services:				
Pupil	380,406	0	0	380,406
Instructional Staff	62,438	0	4,067	66,505
Board of Education	57,311	0	0	57,311
Administration	614,054	0	0	614,054
Fiscal	389,479	9,897	879	400,255
Operation and Maintenance of Plant	690,801	0	40,005	730,806
Pupil Transportation	640,213	0	0	640,213
Central	128,963	0	5,400	134,363
Operation of Non-Instructional Services	560,960	0	0	560,960
Extracurricular Activities	180,828	0	49,448	230,276
Capital Outlay	143,696	0	0	143,696
Debt Service:				
Principal Retirement	0	107,945	0	107,945
Interest and Fiscal Charges	0	180,008	0	180,008
Capital Appreciation Bond Accretion	0	317,055	0	317,055
<i>Total Expenditures</i>	<u>7,437,292</u>	<u>614,905</u>	<u>574,380</u>	<u>8,626,577</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,330,179</u>	<u>(2,698)</u>	<u>35,620</u>	<u>1,363,101</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	0	310,204	310,204
Transfers Out	(310,204)	0	0	(310,204)
<i>Total Other Financing Sources (Uses)</i>	<u>(310,204)</u>	<u>0</u>	<u>310,204</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	1,019,975	(2,698)	345,824	1,363,101
<i>Restated Fund Balances</i>				
<i>Beginning of Year (See Note 22)</i>	<u>1,854,424</u>	<u>571,178</u>	<u>539,593</u>	<u>2,965,195</u>
<i>Fund Balances End of Year</i>	<u>\$2,874,399</u>	<u>\$568,480</u>	<u>\$885,417</u>	<u>\$4,328,296</u>

See accompanying notes to the basic financial statements

**Joseph Badger Local School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2016*

**Net Change in Fund Balances - Total Governmental Funds** \$1,363,101

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Asset Additions	59,612
Current Year Depreciation	<u>(1,138,823)</u>

Total	(1,079,211)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent Property Taxes	39,671
Intergovernmental	<u>34,667</u>

Total	74,338
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Repayment of bond principal and capital appreciation bond accretion is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 425,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Accrued Interest on Bonds	81
Amortization of Deferred Charges on Refunding	(27,029)
Amortization of Premium on Bonds	46,829
Bond Accretion	<u>(212,366)</u>

Total	(192,485)
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Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 537,945

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (404,843)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (13,857)

The internal service fund used by management to charge the costs of insurance to individual funds are not reported in the district-wide statements of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (23,161)

*Change in Net Position of Governmental Activities* \$686,827

See accompanying notes to the basic financial statements

**Joseph Badger Local School District**  
*Statement of Revenues, Expenditures and Changes*  
*in Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2016*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Property Taxes	\$2,760,254	\$3,095,785	\$3,095,785	\$0
Intergovernmental	4,659,395	5,225,785	5,225,785	0
Interest	11,404	12,790	12,790	0
Tuition and Fees	184,406	206,822	206,822	0
Contributions and Donations	1,783	2,000	2,000	0
Charges for Services	33,162	37,193	37,193	0
Miscellaneous	119,029	119,149	119,149	0
<i>Total Revenues</i>	7,769,433	8,699,524	8,699,524	0
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	3,285,641	3,011,931	3,011,931	0
Special	498,210	545,185	545,185	0
Vocational	45,557	7,005	7,005	0
Student Intervention Services	91,267	72,335	72,335	0
Support Services:				
Pupil	351,853	378,440	378,440	0
Instructional Staff	31,010	57,739	57,739	0
Board of Education	46,662	61,511	61,511	0
Administration	699,992	609,376	609,376	0
Fiscal	366,326	388,714	388,714	0
Operation and Maintenance of Plant	642,062	712,502	712,502	0
Pupil Transportation	695,736	645,596	645,596	0
Central	119,954	129,379	129,379	0
Operation of Non-Instructional Services	524,144	560,960	560,960	0
Extracurricular Activities	181,178	176,384	176,384	0
Capital Outlay	126,043	183,042	183,042	0
<i>Total Expenditures</i>	7,705,635	7,540,099	7,540,099	0
<i>Excess of Revenues Over (Under) Expenditures</i>	63,798	1,159,425	1,159,425	0
<b>Other Financing Sources (Uses)</b>				
Advances In	1,517	1,517	1,517	0
Advances Out	(27,576)	(27,576)	(27,576)	0
Transfers Out	(447,134)	(440,204)	(440,204)	0
<i>Total Other Financing Sources (Uses)</i>	(473,193)	(466,263)	(466,263)	0
<i>Net Change in Fund Balance</i>	(409,395)	693,162	693,162	0
<i>Fund Balance Beginning of Year</i>	2,293,080	2,293,080	2,293,080	0
Prior Year Encumbrances Appropriated	9,555	9,555	9,555	0
<i>Fund Balance End of Year</i>	\$1,893,240	\$2,995,797	\$2,995,797	\$0

See accompanying notes to the basic financial statements



**Joseph Badger Local School District**

*Statement of Fund Net Position*

*Proprietary Funds*

*June 30, 2016*

	Other Enterprise	Governmental Activity - Internal Service Fund
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$82,690	\$18,264
Accounts Receivable	17,571	0
Intergovernmental Receivable	27,316	0
Depreciable Capital Assets, Net	139,962	0
<i>Total Assets</i>	<u>267,539</u>	<u>18,264</u>
<b>Deferred Outflows of Resources</b>		
Pension	32,622	0
<b>Liabilities</b>		
<i>Current Liabilities:</i>		
Accounts Payable	6,888	0
Accrued Wages and Benefits	18,533	0
Matured Compensated Absences Payable	4,097	0
Intergovernmental Payable	3,829	0
Claims Payable	0	27,316
Compensated Absences Payable	1,315	0
<i>Total Current Liabilities</i>	<u>34,662</u>	<u>27,316</u>
<i>Long-Term Liabilities (net of current portion):</i>		
Net Pension Liability	250,339	0
Compensated Absences Payable	9,455	0
<i>Total Long-Term Liabilities</i>	<u>259,794</u>	<u>0</u>
<i>Total Liabilities</i>	<u>294,456</u>	<u>27,316</u>
<b>Deferred Inflows of Resources</b>		
Pension	10,626	0
<b>Net Position</b>		
Investment in Capital Assets	139,962	0
Unrestricted (Deficit)	(144,883)	(9,052)
<i>Total Net Position</i>	<u>(\$4,921)</u>	<u>(\$9,052)</u>

See accompanying notes to the basic financial statements

**Joseph Badger Local School District**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Position  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2016*

	Other Enterprise	Governmental Activity - Internal Service Fund
<b>Operating Revenues</b>		
Charges for Services	\$166,321	\$55,818
Other	22,135	0
<i>Total Operating Revenues</i>	188,456	55,818
<b>Operating Expenses</b>		
Salaries	115,951	0
Fringe Benefits	96,232	0
Purchased Services	4,311	9,225
Materials and Supplies	198,088	0
Claims	0	69,754
Depreciation	18,755	0
Other	276	0
<i>Total Operating Expenses</i>	433,613	78,979
<i>Operating Income (Loss)</i>	(245,157)	(23,161)
<b>Non-Operating Revenues (Expenses)</b>		
Federal and State Grants	245,320	0
Interest	181	0
<i>Total Non-Operating Revenues (Expenses)</i>	245,501	0
<i>Change in Net Position</i>	344	(23,161)
<i>Net Position Beginning of Year</i>	(5,265)	14,109
<i>Net Position End of Year</i>	(\$4,921)	(\$9,052)

See accompanying notes to the basic financial statements

**Joseph Badger Local School District**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Fiscal Year Ended June 30, 2016

	Other Enterprise	Governmental Activity - Internal Service Fund
<b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>		
<b>Cash Flows from Operating Activities</b>		
Cash Received from Customers	\$165,050	\$0
Cash Received from Interfund Services	0	55,818
Other Cash Received	22,135	0
Cash Payments to Employees for Services	(123,814)	0
Cash Payments for Employee Benefits	(78,000)	0
Cash Payments to Suppliers for Goods and Services	(201,331)	(9,225)
Cash Payments for Claims	0	(49,122)
Other Cash Payments	(276)	0
<i>Net Cash Provided by (Used for) Operating Activities</i>	(216,236)	(2,529)
<b>Cash Flows from Noncapital Financing Activities</b>		
Federal and State Grants Received	265,070	0
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition of Capital Assets	(8,376)	0
<b>Cash Flows from Investing Activities</b>		
Interest on Investments	181	0
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	40,639	(2,529)
<i>Cash and Cash Equivalents Beginning of Year</i>	42,051	20,793
<i>Cash and Cash Equivalents End of Year</i>	\$82,690	\$18,264
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</b>		
Operating Income (Loss)	(\$245,157)	(\$23,161)
Adjustments:		
Depreciation	18,755	0
(Increase) Decrease in Receivables:		
Accounts Receivable	(1,271)	0
Deferred Outflow - Pension	(13,443)	0
Increase (Decrease) in Liabilities:		
Accounts Payable	1,068	0
Accrued Wages	4,465	0
Matured Compensated Absences Payable	4,097	0
Compensated Absences Payable	(1,556)	0
Net Pension Liability	39,266	0
Deferred Inflow - Pension	(24,526)	0
Intergovernmental Payable	2,066	0
Claims Payable	0	20,632
<i>Total Adjustments</i>	28,921	20,632
<i>Net Cash Provided by (Used for) Operating Activities</i>	(\$216,236)	(\$2,529)

See accompanying notes to the basic financial statements

**Joseph Badger Local School District**

*Statement of Fiduciary Net Position*

*Fiduciary Funds*

*June 30, 2016*

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	Private Purpose Trust	
	Scholarship	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$24,735	\$21,690
<b>Liabilities</b>		
Due to Students	0	\$21,690
<b>Net Position</b>		
Held in Trust for Scholarships	\$24,735	

See accompanying notes to the basic financial statements

**Joseph Badger Local School District**  
*Statement of Changes in Fiduciary Net Position*  
*Private Purpose Trust Fund*  
*For the Fiscal Year Ended June 30, 2016*

	Scholarship
<b>Additions</b>	
Interest	\$67
<b>Deductions</b>	2,500
<i>Change in Net Position</i>	(2,433)
<i>Net Position Beginning of Year</i>	27,168
<i>Net Position End of Year</i>	\$24,735

See accompanying notes to the basic financial statements

## **Joseph Badger Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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### **Note 1 - Description of the School District and Reporting Entity**

Joseph Badger Local School District (the School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by the State and federal agencies. This Board of Education controls the School District's four instructional/support facilities staffed by thirty classified employees, forty-five certified full-time teaching personnel, and five administrators who provide services to 793 students and other community members.

#### ***Reporting Entity***

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District has no component units.

The School District participates in two jointly governed organizations and three public entity risk pools and is associated with a related organization. These organizations are presented in Notes 18, 19 and 20 to the financial statements. These organizations are:

#### Jointly Governed Organizations:

Trumbull County Career and Technical Center  
Northeast Ohio Management Information Network

#### Public Entity Risk Pools:

Ohio School Boards Association Workers' Compensation Group Rating Program  
Trumbull County Schools Employee Insurance Benefits Consortium  
Schools of Ohio Risk Sharing Authority

#### Related Organization:

Kinsman Public Library

## Joseph Badger Local School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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### **Note 2 - Summary of Significant Accounting Policies**

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

#### ***Basis of Presentation***

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

***Government-wide Financial Statements*** The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. These statements distinguish between those activities of the School District that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges).

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

***Fund Financial Statements*** During the year, the School District segregates transactions related to certain School 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 School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

#### ***Fund Accounting***

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

***Governmental Funds*** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for

## Joseph Badger Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities and deferred inflows of resources is reported as fund balance. The following are the School District's major governmental funds:

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

**Bond Retirement Fund** – The bond retirement fund accounts for and reports property tax revenues that are restricted for payment of principal and interest and fiscal charges on general obligation debt.

The other governmental funds of the School District account for grants and other resources whose uses are restricted, committed or assigned to a particular purpose.

**Proprietary Funds** Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

**Enterprise Fund** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The School District accounts for two enterprise funds. One for the financial transactions related to the food service operations of the School District. The other for the financial transactions related to the pre-kindergarten program which began in fiscal year 2009.

**Internal Service Fund** The internal service fund accounts for financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District utilizes an internal service fund to account for the operation of the School District's self insurance program for employee dental benefits.

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

### **Measurement Focus**

**Government-wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the School District are included on the statement of net position. The statement of activities presents increases (i.e., revenues) and decreases (e.g., expenses) in total net position.

**Fund Financial Statements** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance



## Joseph Badger Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

The private purpose trust fund is reported using the economic resources measurement focus.

### ***Basis of Accounting***

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

## **Joseph Badger Local School District**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 10.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes, pension and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 17. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 10)

***Expenditures/Expenses*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

### ***Pensions***

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

### ***Budgetary Process***

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that were in

## **Joseph Badger Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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effect at the time the original and final appropriations were passed by the Board of Education. Prior to June 30, the Board requested and received an amended certificate in which estimated revenue matches actual revenue for the fiscal year.

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year. Prior to year end the Board of Education adopted appropriations which match actual expenditures plus encumbrances.

### ***Cash and Cash Equivalents***

Cash received by the School District is pooled for investment purposes. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2016, the School District's investments were limited to STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The 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 an NAV per share that approximates fair value.

For the fiscal year 2016, there were no limitations 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.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$12,478, which includes \$3,869 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

### ***Restricted Assets***

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions. Restricted assets in the general fund are for unclaimed funds.

### ***Capital Assets***

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

**Joseph Badger Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their acquisition values as of the date received. The School District maintains a capitalization threshold of twenty-five hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land Improvements	50 years	N/A
Buildings and Improvements	50 years	N/A
Furniture and Equipment	5-20 years	5-20 years
Vehicles	10 years	N/A
Textbooks	5 years	N/A

***Compensated Absences***

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

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

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

On the financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account “Matured Compensated Absences Payable” in the fund from which the employee who has accumulated unpaid leave will be paid.

## Joseph Badger Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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### ***Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the proprietary funds are reported on the proprietary fund financial statements.

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

### ***Net Position***

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for food service operations, instruction, support services and extracurricular activities.

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

### ***Fund Balance***

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

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

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

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

***Assigned*** Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by the School District Board of Education. In the

## **Joseph Badger Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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general fund, assigned amounts represent intended uses established by the School District Board of Education, delegated that authority by State statute. State statute authorizes the Treasurer to assign fund balance purchases on order provided such amounts have been lawfully appropriated. The Board of Education assigned fund balance for public school support and to cover a gap between estimated revenue and appropriations in fiscal year 2017's budget.

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

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

### ***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are charges for services for food service, pre-kindergarten and self insurance. Operating expenses are necessary costs that are incurred to provide the good or service that is the primary activity of the fund. Any revenues and expenses not meeting the definitions of operating are reported as non-operating.

### ***Deferred Charge on Refunding***

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on the refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the effective interest method and is presented as deferred outflows of resources on the statement of net position.

### ***Bond Premiums***

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using the straight line method. Bond premiums are presented as an increase of the face amount of the general obligation bonds payable. On the fund financial statements, bond premiums are received in the year the bonds are issued.

### ***Internal Activity***

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Transfers between governmental activities are eliminated on the government-wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other

**Joseph Badger Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

***Estimates***

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

**Note 3 – Fund Balances**

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

Fund Balances	General	Bond Retirement	Other Governmental Funds	Total
<b><i>Nonspendable</i></b>				
Unclaimed Monies	\$4,632	\$0	\$0	\$4,632
<b><i>Restricted for</i></b>				
Classroom Facilities Maintenance	0	0	44,012	44,012
Athletics	0	0	20,735	20,735
Instructional Services	0	0	1,590	1,590
Debt Service Payments	0	568,480	0	568,480
Capital Improvements	0	0	876,815	876,815
<i>Total Restricted</i>	0	568,480	943,152	1,511,632
<b><i>Committed to</i></b>				
Employee Services	76,191	0	0	76,191
<b><i>Assigned to</i></b>				
Public School Support	127,037	0	0	127,037
Fiscal Year 2017 Operations	158,524	0	0	158,524
<i>Total Assigned</i>	285,561	0	0	285,561
<b><i>Unassigned (Deficit)</i></b>	2,508,015	0	(57,735)	2,450,280
<b><i>Total Fund Balances</i></b>	<b>\$2,874,399</b>	<b>\$568,480</b>	<b>\$885,417</b>	<b>\$4,328,296</b>

**Note 4 - Budgetary Basis of Accounting**

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

**Joseph Badger Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than restricted, committed, or assigned fund balance (GAAP).
4. Budgetary revenues and expenditures of the public school support and the employee severance funds are classified to general fund for GAAP Reporting.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance	
GAAP Basis	\$1,019,975
Net Adjustment for Revenue Accruals	65,694
Advances In	1,517
Net Adjustment for Expenditure Accruals	(154,644)
Perspective Difference:	
Public School Support	(29,709)
Employee Severance	(15,842)
Advances Out	(27,576)
Encumbrances	(166,253)
Budget Basis	<u><u>\$693,162</u></u>

**Note 5 - Deposits and Investments**

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

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

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

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



## Joseph Badger Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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

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

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

### **Investments**

As of June 30, 2016, the School District's only investment was in STAR Ohio which is measured at net asset value per share.

**Credit Risk** Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District has no investment policy that addresses credit risk.

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

**Joseph Badger Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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**Note 6 – Accountability and Compliance**

***Accountability***

At June 30, 2016, the Title I and Title II-A special revenue funds had a deficit fund balances of \$44,545 and \$13,190, respectively. These fund deficits resulted from adjustments for accrued liabilities. The general fund is liable for any fund deficits and provides transfers when cash is required, rather than when accruals occur.

***Compliance***

Contrary to Ohio Revised Code Section 5705.10(I), the School District had negative cash fund balances in the employee service, Idea-B, Title I and Title II-A funds during the year.

**Note 7 - Property Taxes**

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

Property taxes include amounts levied against all real property and public utility property located in the School District. Real property tax revenues 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 are established by State law at thirty-five percent of appraised market value. Real property 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.

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

The School District receives property taxes from Trumbull County. The County Auditor periodically advances to the School 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.

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

The amount available as an advance at June 30, 2016 was \$8,256 in the general fund, \$123 in the non-major classroom facilities maintenance special revenue fund and \$1,397 in the bond retirement debt service fund. The amount available as an advance at June 30, 2015 was \$22,178 in the general fund, \$353 in the non-major classroom facilities maintenance special revenue fund and \$4,333 in the bond retirement debt service fund.

## Joseph Badger Local School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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

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

	2015 Second Half Collections		2016 First Half Collections	
	Amount	Percent	Amount	Percent
	Agricultural/Residential and Other Real Estate	\$122,828,500	94.56 %	\$122,621,690
Public Utility Personal	7,061,220	5.44	7,387,550	5.68
Total	\$129,889,720	100.00 %	\$130,009,240	100.00 %
Tax rate per \$1,000 of assessed valuation	\$40.40		\$38.50	

### Note 8 – Capital Assets

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

	Balance 06/30/15	Additions	Deductions	Balance 06/30/16
<b>Governmental Activities</b>				
<i>Capital Assets not being Depreciated:</i>				
Land	\$528,682	\$0	\$0	\$528,682
<i>Capital Assets being Depreciated:</i>				
Land Improvements	4,260,070	0	0	4,260,070
Buildings and Improvements	24,071,333	0	0	24,071,333
Furniture and Equipment	1,360,426	54,053	0	1,414,479
Vehicles	933,041	0	0	933,041
Textbooks	670,324	5,559	(5,003)	670,880
<i>Total Capital Assets being Depreciated</i>	31,295,194	59,612	(5,003)	31,349,803
Less Accumulated Depreciation:				
Land Improvements	(1,805,796)	(212,557)	0	(2,018,353)
Buildings and Improvements	(6,452,716)	(760,161)	0	(7,212,877)
Furniture and Equipment	(682,242)	(67,032)	0	(749,274)
Vehicles	(733,273)	(88,500)	0	(821,773)
Textbooks	(645,244)	(10,573)	5,003	(650,814)
<i>Total Accumulated Depreciation</i>	(10,319,271)	(1,138,823) *	5,003	(11,453,091)
<i>Total Assets being Depreciated, Net</i>	20,975,923	(1,079,211)	0	19,896,712
<i>Governmental Activities Capital Assets, Net</i>	\$21,504,605	(\$1,079,211)	\$0	\$20,425,394

**Joseph Badger Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

**Business-Type Activities**

Furniture and Equipment	\$290,858	\$8,376	\$0	\$299,234
Less Accumulated Depreciation	<u>(140,517)</u>	<u>(18,755)</u>	<u>0</u>	<u>(159,272)</u>
<i>Business-Type Activities Capital Assets, Net</i>	<u>\$150,341</u>	<u>(\$10,379)</u>	<u>\$0</u>	<u>\$139,962</u>

\*Depreciation expense was charged to governmental activities as follows:

Instruction:	
Regular	\$993,716
Special	756
Vocational	320
Support Services:	
Instructional Staff	2,285
Administration	575
Fiscal	182
Operation and Maintenance of Plant	21,100
Pupil Transportation	88,500
Central	193
Extracurricular Activities	<u>31,196</u>
Total Depreciation Expense	<u>\$1,138,823</u>

**Note 9 - Receivables**

Receivables at June 30, 2016, consisted of taxes, intergovernmental, tuition and accrued interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of Federal funds. All receivables, except property taxes, are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables for governmental activities follows:

<u>Governmental Activities</u>	<u>Amounts</u>
Title I Grant	\$26,091
Miscellaneous Federal Grants	15,740
State Employee Retirement System Reimbursement	7,802
Title II-A Grant	3,117
Title VI-B Grant	1,590
Foundation Adjustment	<u>116</u>
Total	<u>\$54,456</u>

Intergovernmental receivables in the food service enterprise fund consist of \$27,316 for food subsidies from the State of Ohio.

## Joseph Badger Local School District

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016

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### Note 10 - Pension Plans

#### *Net Pension Liability*

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

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

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

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

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

#### *Plan Description - School Employees Retirement System (SERS)*

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

Age and service requirements for retirement are as follows:

**Joseph Badger Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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

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

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

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

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 School District's contractually required contribution to SERS was \$142,420 for fiscal year 2016. Of this amount \$10,153 is reported as an intergovernmental payable.

***Plan Description - State Teachers Retirement System (STRS)***

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or

## **Joseph Badger Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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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. In the Combined Plan, 11 percent of the 12 percent member rate goes to the DC Plan and 1 percent goes to the DB 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.

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. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. Effective July 1, 2016, the statutory maximum employee contribution rate was increased one percent to 14 percent. 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 School District's contractually required contribution to STRS was \$413,139 for fiscal year 2016. Of this amount \$80,129 is reported as an intergovernmental payable.

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

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

**Joseph Badger Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.02886800%	0.03240170%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.03241940%</u>	<u>0.03026449%</u>	
Change in Proportionate Share	<u>0.00355140%</u>	<u>-0.00213721%</u>	
Proportionate Share of the Net			
Pension Liability	\$1,849,884	\$8,364,219	\$10,214,103
Pension Expense	\$167,460	\$256,294	\$423,754

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$29,786	\$381,303	\$411,089
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	157,134	11,784	168,918
School District contributions subsequent to the measurement date	<u>142,420</u>	<u>413,139</u>	<u>555,559</u>
Total Deferred Outflows of Resources	<u>\$329,340</u>	<u>\$806,226</u>	<u>\$1,135,566</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$61,293	\$601,546	\$662,839
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>0</u>	<u>507,993</u>	<u>507,993</u>
Total Deferred Inflows of Resources	<u>\$61,293</u>	<u>\$1,109,539</u>	<u>\$1,170,832</u>

\$555,559 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2017	\$27,943	(\$259,801)	(\$231,858)
2018	27,943	(259,801)	(231,858)
2019	27,802	(259,801)	(231,999)
2020	<u>41,939</u>	<u>62,951</u>	<u>104,890</u>
Total	<u>\$125,627</u>	<u>(\$716,452)</u>	<u>(\$590,825)</u>



**Joseph Badger Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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***Actuarial Assumptions - SERS***

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

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

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

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

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

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

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

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

**Joseph Badger Local School District**

*Notes to the Basic Financial Statements  
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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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 School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$2,565,122	\$1,849,884	\$1,247,592

**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	12.25 percent at age 20 to 2.75 percent at age 70
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 commences 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 no set back from age 90 and above.

## Joseph Badger Local School District

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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

STRS' investment consultant develops best estimates for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	10 Year Expected Nominal Rate of Return *
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	

\* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent.

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

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 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%)
School District's proportionate share of the net pension liability	\$11,618,532	\$8,364,219	\$5,612,213

## Joseph Badger Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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### **Note 11 – Postemployment Benefits**

#### ***School Employees Retirement System***

Health Care Plan Description - The School 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](http://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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the School District's surcharge obligation was \$16,031.

The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$18,451, and \$16,073, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

#### ***State Teachers Retirement System***

Plan Description – The State Teachers Retirement System of Ohio (STRS Ohio) administers a cost-sharing multiple-employer defined benefit Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. 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 Ohio which can be obtained by visiting [www.strsoh.org](http://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 discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly

**Joseph Badger Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. For the fiscal year ended June 30, 2014, one percent of covered payroll was allocated to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015 and 2014 were \$0, \$0 and \$33,465, respectively. The full amount has been contributed for 2016, 2015 and 2014.

**Note 12 - Other Employee Benefits**

***Compensated Absences***

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administrators earn ten to thirty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. A percentage of unused sick time is paid at retirement. All employees who are eligible to retire receive a severance benefit upon retirement limited to twenty-five percent of accumulated sick leave. For classified employees the maximum pay out can be one full year salary. For certified employees and certain administrators, the maximum payout is determined by their individual contracts. Only employees with 10 years of service or more, with the School District, are paid for unused sick leave at termination or resignation.

***Life Insurance***

The School District provides life insurance and accidental death and dismemberment insurance to most employees through the Trumbull County Schools Employee Insurance Benefits Consortium at a cost of \$.105 per \$1,000 for the first \$50,000 and a rate that varies by age for amounts in excess of the first \$50,000. The coverage provided follows:

<u>Class</u>	<u>Class Description</u>	<u>Amount of Coverage</u>	<u>Class</u>	<u>Class Description</u>	<u>Amount of Coverage</u>
I	Full Time Certified	\$50,000	VI	Classified Cafeteria Aide	\$12,500
II	Full Time Classified	50,000	VII	Half Day Custodial	12,500
III	Part Time Classified	25,000	VIII	Building Secretaries	25,000
IV	Treasurer	100,000	IX	Administrators	50,000
V	Half Day Classified	12,500	X	Superintendent	100,000

**Note 13 – Interfund Balances and Transfers**

***Interfund Balances***

The title I, title II-A, and miscellaneous federal grants special revenue funds have interfund payables to the general fund in the amounts of \$4,401, \$5,918, and \$15,740, respectively. Interfund receivables and payables are due to the timing of the receipt of grant monies and monies collected for some programs received by various funds. The general fund provides money to operate the programs until grants and other monies are received and the advances can be repaid. These loans are expected to be repaid in one year.

**Joseph Badger Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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***Interfund Transfers***

The general fund transferred \$310,204 to the permanent improvement capital projects fund to help fund capital projects.

**Note 14 - Contingencies**

***Grants***

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 School District at June 30, 2016, if applicable, cannot be determined at this time.

***School Foundation***

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

***Litigation***

The School District is not a party to any legal proceedings.

**Note 15 - Long-Term Obligations**

Original issue amounts and interest rates of the School District's debt issues were as follows:

<u>Debt Issue</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Year of Maturity</u>
2003 New School Construction Capital Appreciation Bonds	3.70%	\$99,993	2015-2017
2012 Various Purpose Refunding Bonds			
Serial Bonds	1.00-3.30%	6,550,000	2032
Term Bonds	1.00-1.30%	300,000	2014-2017
Capital Appreciation Bonds	67.815%	24,997	2018-2019

Changes in long-term obligations of the School District during fiscal year 2016 were as follows:

**Joseph Badger Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

	Balance 6/30/15	Additions	Deductions	Balance 6/30/16	Amounts Due in One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds:</b>					
2003 New School Construction					
Capital Appreciation Bonds	\$60,341	\$0	\$32,945	\$27,396	\$27,396
Accretion on Bonds	530,791	82,447	317,055	296,183	296,183
Unamortized Premium	27,310	0	13,655	13,655	0
<b>Total 2003 New School Construction Bonds</b>	<b>618,442</b>	<b>82,447</b>	<b>363,655</b>	<b>337,234</b>	<b>323,579</b>
2012 Various Purpose Refunding Bonds					
Serial Bonds	6,405,000	0	0	6,405,000	0
Term Bonds	150,000	0	75,000	75,000	75,000
Capital Appreciation Bonds	24,997	0	0	24,997	0
Accretion	141,982	129,919	0	271,901	0
Unamortized Premium	547,371	0	33,174	514,197	0
<b>Total 2012 Various Purpose Refunding Bonds</b>	<b>7,269,350</b>	<b>129,919</b>	<b>108,174</b>	<b>7,291,095</b>	<b>75,000</b>
<b>Total General Obligation Bonds</b>	<b>7,887,792</b>	<b>212,366</b>	<b>471,829</b>	<b>7,628,329</b>	<b>398,579</b>
<b>Other Long-Term Obligations</b>					
Net Pension Liability:					
STRS	7,841,809	462,302	0	8,304,111	0
SERS	1,289,326	370,327	0	1,659,653	0
<b>Total Net Pension Liability</b>	<b>9,131,135</b>	<b>832,629</b>	<b>0</b>	<b>9,963,764</b>	<b>0</b>
Compensated Absences	562,590	154,132	140,275	576,447	128,370
<b>Total Other Long-Term Obligations</b>	<b>9,693,725</b>	<b>986,761</b>	<b>140,275</b>	<b>10,540,211</b>	<b>128,370</b>
<b>Total Governmental Activities</b>	<b>\$17,581,517</b>	<b>\$1,199,127</b>	<b>\$612,104</b>	<b>\$18,168,540</b>	<b>\$526,949</b>

	Balance 6/30/15	Additions	Deductions	Balance 6/30/16	Amounts Due in One Year
<b>Business-Type Activities</b>					
Net Pension Liability:					
STRS	\$39,406	\$20,702	\$0	\$60,108	\$0
SERS	171,667	18,564	0	190,231	0
<b>Total Net Pension Liability</b>	<b>211,073</b>	<b>39,266</b>	<b>0</b>	<b>250,339</b>	<b>0</b>
Compensated Absences	12,326	1,706	3,262	10,770	1,315
<b>Total Business-Type Activities</b>	<b>\$223,399</b>	<b>\$40,972</b>	<b>\$3,262</b>	<b>\$261,109</b>	<b>\$1,315</b>

Compensated absences will be paid from the general fund, title I and title II-A special revenue funds and the food service enterprise fund. The School District pays obligations related to employee compensation from the fund benefitting from their service.

**Joseph Badger Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

On June 24, 2003, Joseph Badger Local School District issued \$9,999,993 in voted general obligation bonds, which included serial, term and capital appreciation bonds in the amounts of \$5,295,000, \$4,605,000 and \$99,993, respectively. As of June 30, 2012, the full amount of the term bonds and the majority of the serial bonds remaining outstanding were retired by the School District through an advance refunding. The general obligation bonds were issued to fund the construction of the new pre-kindergarten through grade twelve building. The bonds were issued for a twenty-eight year period with final maturity at December 1, 2031. The bonds will be retired from the debt service fund.

The maturity amount of outstanding 2003 capital appreciation bonds at June 30, 2016 is \$1,050,000. The capital appreciation bonds were originally sold at a discount of \$950,007, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2017. The accretion recorded for 2016 was \$82,447, for a total outstanding capital appreciation bond liability of \$323,579 at June 30, 2016.

On April 19, 2012, the School District issued \$6,874,997 in general obligation refunding bonds which included serial, term and capital appreciation (deep discount) bonds in the amount of \$6,550,000, \$300,000 and \$24,997, respectively. The general obligation refunding bonds were issued for the purpose of refunding a portion of the 2003 new school construction bonds to take advantage of lower interest rates. The bonds were issued for a twenty year period with a final maturity at December 1, 2031. The bonds will be retired from the debt service fund.

The maturity amount of outstanding 2012 capital appreciation bonds at June 30, 2016 is \$850,000. The capital appreciation bonds were originally sold at a discount of \$825,003, which is being accreted annually until the point of maturity of the capital appreciation bonds, which is 2019. The accretion recorded for 2016 was \$129,919, for a total outstanding capital appreciation bond liability of \$296,898 at June 30, 2016.

The term bonds maturing on December 1, 2016 are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount redeemed, plus accrued interest to the redemption date, on December 1 in the years and in the respective principal amounts as follows:

	<u>Issue</u>
<u>Year</u>	<u>\$75,000</u>
Amount Due at Stated Maturity	<u>75,000</u>
<i>Stated Maturity</i>	<i>12/1/2016</i>

The refunding bonds were sold at a premium of \$657,951. Net proceeds of \$7,411,075 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the various bonds. As a result, \$6,875,000 of these bonds is considered defeased and the liability for the refund portion of these bonds has been removed from the School District's financial statements.

The School District's overall debt margin was \$4,640,983 with an unvoted debt margin of \$130,009 at June 30, 2016. Principal and interest requirements to retire the general obligation bonds outstanding at June 30, 2016 are as follows:



**Joseph Badger Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

	Serial Bonds		Term Bonds		Capital Appreciation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$0	\$178,545	\$75,000	\$487	\$27,396	\$322,604
2018	0	178,545	0	0	16,181	413,819
2019	0	178,545	0	0	8,816	411,184
2020	425,000	174,295	0	0	0	0
2021	435,000	165,478	0	0	0	0
2022-2026	2,315,000	666,115	0	0	0	0
2027-2031	2,650,000	312,354	0	0	0	0
2032	580,000	9,570	0	0	0	0
<b>Total</b>	<b>\$6,405,000</b>	<b>\$1,863,447</b>	<b>\$75,000</b>	<b>\$487</b>	<b>\$52,393</b>	<b>\$1,147,607</b>

**Note 16 - Risk Management**

***Property and Liability***

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the School District contracted with Schools of Ohio Risk Sharing Authority (SORSA) for property and fleet insurance, liability insurance and inland marine coverage. Coverage provided by SORSA is as follows:

**General Liability**

Bodily Injury, Personal Injury, Products/Completed Operations .....	\$12,000,000
Fire Legal Liability.....	500,000
Employee Benefits Liability.....	12,000,000
Medical Payments (\$5,000 per accident) .....	1,000/person
General Liability Annual Aggregate.....	14,000,000

**Educators' Legal Liability – Errors and Omissions (\$5,000 deductible).....**1,000,000

**Automobile Liability .....** 50,000

Owned/Leased Vehicles includes Hired/Non-owned (no deductible).....12,000,000

Uninsured Motorists (no deductible).....50,000

**Automobile Physical Damage (\$1,000 deductible).....**Actual Value

**Property Insurance Limit (Replacement Cost with \$1,000 deductible).....**39,372,564

Crime, Forgery, Computer Fraud, Theft, Disappearance, Destruction.....100,000

Earthquake and Flood (\$100,000 deductible).....2,000,000

Unintentional Errors and Omissions.....1,000,000

other property damage included (\$1,000 deductible).....Various

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

***Employee Health Benefits***

The School District has contracted with Trumbull County Schools Employee Insurance Benefits Consortium to provide employee medical/surgical benefits. The Trumbull County Schools Employee Insurance Benefits Consortium is a shared risk pool comprised of sixteen Trumbull County school districts. Rates are set through an annual calculation process. The School District pays a monthly contribution, which is placed in a

**Joseph Badger Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. The board of directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

The School District elected to provide dental coverage benefits through a self-insurance program. The School District maintains a self-insurance internal service fund to account for and finance its uninsured risks of loss in this program. This plan provides a dental plan with a \$75 family and \$25 single deductible. A third-party administrator, Self Funded Plans Inc., located in Cleveland, Ohio, reviews all dental claims which are then paid by the School District. The School District pays into the self-insurance internal service fund \$85.80 per family coverage and \$24.20 per single coverage per month for dental plan. The premiums are paid by the fund that pays the salary for the employee and are based on historical cost information.

The claims liability estimated by the third party administrator to be \$27,316 reported in the internal service fund at June 30, 2016 is based on the requirements of Governmental Accounting Standards Board Statement No. 30 which required that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. The change in the fund's claims liability amount for 2016 was:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2015	\$4,693	\$55,154	\$53,163	\$6,684
2016	6,684	69,754	49,122	27,316

***Workers' Compensation***

For fiscal year 2016, the School District participated in the Ohio School Board Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the GRP.

**Note 17 - Set-Aside Calculations**

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization.

**Joseph Badger Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2016*

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

	<u>Capital Improvements</u>
Set-aside Balance as of June 30, 2015	\$0
Prior Year Carryover	(6,640,338)
Current Year Set-aside Requirement	151,782
Qualifying Disbursements	<u>(332,931)</u>
Totals	<u>(\$6,821,487)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$6,532,393)</u>
Set-aside Balance as of June 30, 2016	<u>\$0</u>

The School District had qualifying disbursements during the fiscal year that reduced the set-aside amount to below zero for capital acquisition set-asides. The negative balance being carried forward represents the still outstanding balance on the School District's Ohio Schools Facilities Commission bonds.

**Note 18 – Jointly Governed Organizations**

***Trumbull County Career and Technical Center***

The Trumbull County Career and Technical Center is a distinct political subdivision of the State of Ohio operated under the direction of a board consisting of one representative from each of the fifteen participating school districts. The board is responsible for approving its own budgets, appointing personnel, and accounting and finance related activities. Joseph Badger Local School District students may attend the vocational school. The Trumbull County Career and Technical Center's Board exercises total control over the operations of the Trumbull County Career and Technical Center including budgeting, appropriation, contracting and designating management. The degree of control exercised by any participating school district is limited to its representation on the Board. During fiscal year 2016, no monies were paid to the Career and Technical Center. Financial information can be obtained from the Trumbull County Career and Technical Center, Treasurer, at 528 Educational Highway, Warren, Ohio 44483.

***Northeast Ohio Management Information Network (NEOMIN)***

The Northeast Ohio Management Information Network (NEOMIN) is a jointly governed organization among thirty school districts in Trumbull and Ashtabula counties. 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 among member districts. Each of the districts supports NEOMIN based upon a per pupil charge. The School District paid \$28,002 to NEOMIN during fiscal year 2016.

Superintendents of the participating school districts are eligible to be voting members of the Governing Board which consists of ten members, the Trumbull and Ashtabula superintendents (permanent members), three superintendents from Ashtabula County school districts, three superintendents from Trumbull County school districts, and a principal and treasurer (non-voting members who must be employed by a participating

## **Joseph Badger Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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school district, the fiscal agent or NEOMIN). The School District was represented on the Governing Board by the Superintendent during fiscal year 2016. NEOMIN's Board exercises total control over the operations of NEOMIN including budgeting, appropriation, contracting and designating management. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. Financial information can be obtained from the Trumbull County Educational Service Center, at 6000 Youngstown-Warren Road, Niles, Ohio 44446.

### **Note 19 – Public Entity Risk Pools**

#### ***Insurance Purchasing Pool***

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

#### ***Shared Risk Pools***

The School District participates in the Trumbull County Schools Employee Insurance Benefits Consortium. It is a shared risk pool comprised of sixteen Trumbull County School Districts. The Consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Consortium. All Consortium revenue are generated from charges for services.

The School District also participates in the Schools of Ohio Risk Sharing Authority (SORSA), a risk sharing pool with over 65 members. SORSA is a 100 percent member-owned, non-profit insurance risk pool owned and governed by the school district members. SORSA is governed by a Board of Directors comprised of representatives of school districts that participate in the program.

SORSA has agreements with several separate organizations whereby each provides certain administrative, executive, accounting, marketing, underwriting, claim settlement, legal counsel and other services to SORSA and its members. Pursuant to participation agreements with SORSA, each member school district agrees to pay all funding rates associated with the coverage elected. This coverage includes comprehensive general liability, property insurance and automobile liability insurance. To obtain a copy of the SORSA financial statements, write SORSA Executive Director at 8050 North High Street, Suite 160, Columbus, Ohio 43235-6483.

**Joseph Badger Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

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**Note 20 – Related Organization**

The Kinsman Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Joseph Badger Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fire personnel and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Kinsman Public Library, Debbie Messick, Fiscal Officer, at 6420 Church Street, Kinsman, Ohio 44428.

**Note 21 – Encumbrances**

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

<b>Governmental Funds</b>	
General	\$166,253
Other Governmental Funds	<u>488,224</u>
<b>Total Governmental</b>	<u><u>\$654,477</u></u>

**Note 22 – Change in Accounting Principle and Restatement of Fund Balance**

For fiscal year 2016, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application,” GASB Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,” GASB Statement No. 79, “Certain External Investment Pools and Pool Participants,” and GASB Statement No. 82, “Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73.”

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the School District’s fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 76 identifies-in the context of the current governmental financial reporting environment-the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the School District’s financial statements.

**Joseph Badger Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2016*

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance also establishes additional note disclosure requirements for governments that participate in those pools. The School District participates in STAR Ohio which implemented GASB Statement No. 79 for fiscal year 2016. The School District incorporated the corresponding GASB 79 guidance into their fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the School District's fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

***Restatement of Prior Year's Fund Balance***

The reclassification of the employee severance fund from a special revenue fund to the general fund had the following effect on fund balances of the major and nonmajor funds as they were previously reported:

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Fund Balance at June 30, 2015	\$1,794,075	\$571,178	\$599,942	\$2,965,195
Change in Fund Structure	60,349	0	(60,349)	0
Adjusted Fund Balance at June 30, 2015	<u>\$1,854,424</u>	<u>\$571,178</u>	<u>\$539,593</u>	<u>\$2,965,195</u>

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## Required Supplementary Information

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**Joseph Badger Local School District, Ohio**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the*  
*Net Pension Liability*  
*School Employees Retirement System of Ohio*  
*Last Three Fiscal Years (1)\**

	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.032419%	0.028868%	0.028868%
School District's Proportionate Share of the Net Pension Liability	\$1,849,884	\$1,460,993	\$1,716,687
School District's Covered Payroll	\$977,876	\$855,466	\$908,115
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	189.17%	170.78%	189.04%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

\* Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.



**Joseph Badger Local School District, Ohio**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the*  
*Net Pension Liability*  
*State Teachers Retirement System of Ohio*  
*Last Three Fiscal Years (1)\**

	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.0302645%	0.0324017%	0.0324017%
School District's Proportionate Share of the Net Pension Liability	\$8,364,219	\$7,881,215	\$9,388,052
School District's Covered Payroll	\$3,135,850	\$3,322,407	\$3,396,938
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	266.73%	237.21%	276.37%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

\* Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

**Joseph Badger Local School District, Ohio**  
*Required Supplementary Information*  
*Schedule of the School District's Contributions*  
*School Employees Retirement System of Ohio*  
*Last Ten Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$142,420	\$128,884	\$112,066	\$118,963
Contributions in Relation to the Contractually Required Contribution	<u>(142,420)</u>	<u>(128,884)</u>	<u>(112,066)</u>	<u>(118,963)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll	\$1,017,286	\$977,879	\$855,466	\$908,115
Contributions as a Percentage of Covered Payroll	14.00%	13.18%	13.10%	13.10%

2012	2011	2010	2009	2008	2007
\$124,432	\$115,156	\$125,023	\$88,589	\$88,999	\$107,518
(124,432)	(115,156)	(125,023)	(88,589)	(88,999)	(107,518)
\$0	\$0	\$0	\$0	\$0	\$0
\$979,780	\$975,072	\$978,271	\$974,576	\$971,605	\$1,006,723
12.70%	11.81%	12.78%	9.09%	9.16%	10.68%

**Joseph Badger Local School District, Ohio**  
*Required Supplementary Information*  
*Schedule of the School District's Contributions*  
*State Teachers Retirement System of Ohio*  
*Last Ten Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$413,139	\$439,019	\$431,913	\$441,602
Contributions in Relation to the Contractually Required Contribution	<u>(413,139)</u>	<u>(439,019)</u>	<u>(431,913)</u>	<u>(441,602)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered Payroll	\$2,950,993	\$3,135,850	\$3,322,407	\$3,396,938
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$490,359	\$494,138	\$499,724	\$489,827	\$479,062	\$469,808
<u>(490,359)</u>	<u>(494,138)</u>	<u>(499,724)</u>	<u>(489,827)</u>	<u>(479,062)</u>	<u>(469,808)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$3,771,992	\$3,801,062	\$3,844,031	\$3,767,900	\$3,685,092	\$3,613,908
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Joseph Badger Local School District  
Trumbull County  
7119 State Route 7  
Kinsman, Ohio 44428

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Joseph Badger Local School District, Trumbull County, (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 26, 2018.

### ***Internal Control Over Financial Reporting***

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

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

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

***Compliance and Other Matters***

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

***District's Response to Finding***

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

***Purpose of this Report***

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



**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 26, 2018



JOSEPH BADGER LOCAL SCHOOL DISTRICT  
TRUMBULL COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2016

Negative Fund Balances

<i>Finding Number</i>	2016-001
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NONCOMPLIANCE

**Ohio Rev. Code § 5705.10(I)** provides that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund cash balance indicates that money from one fund was used to cover the expenses of another fund. However, Ohio Rev. Code §3315.20 provides an allowable exception for school districts. A school district may have a deficit in any special fund of the school district, but only if all of the following conditions are satisfied:

- The school district has a request for payment pending with the state sufficient to cover the amount of the deficit.
- There is a reasonable likelihood that the payment will be made.
- The unspent and unencumbered balance in the school district's general fund is greater than the aggregate of deficit amounts in all of the school district's special funds.

We reviewed District ledgers for negative fund balances for the months of October, December, March and June and noted the following negative fund balances:

- Employee Service Fund had a deficit fund balance of (\$8,890) in December and (\$23,309) in June.
- Idea-B had a deficit fund balance of (\$11,472) in October, (\$40,345) in December, and (\$14,436) in March.
- Title I had a deficit fund balance of (\$3,589) in October, (\$44,771) in December, and (\$13,133) in March.
- Title II-A had a deficit fund balance of (\$1,502) in October, (\$12,231) in December, and (\$7,709) in March.

Reimbursement requests were not obtained timely therefore, we were not able to net the fund balance deficits against the reimbursements received from the Ohio Department of Education. We also noted that in all months tested above, the unspent and unencumbered balance in the school district's general fund was greater than the aggregate of deficit amounts in all of the school district's special funds.

The District should advance funds from the General Fund to other funds to help avoid deficit fund cash balances or use other appropriate measures to help ensure negative fund balances do not exist throughout the year.

**Official's Response:** The District had grant accounts run in the negative for a majority of the year due to changes in the way reimbursements are distributed from the state. The District met 2 of the 3 criteria cited in Ohio Revised Code 33 15.20. Just to be clear, the District was NEVER in any financial peril by carrying these negative balances in these funds. However, moving forward the District will be more diligent in monitoring these fund balances and making the necessary corrections as they present themselves.

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# Dave Yost • Auditor of State

**JOSEPH BADGER LOCAL SCHOOL DISTRICT**

**TRUMBULL COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 24, 2018**