



OHIO AUDITOR OF STATE
KEITH FABER



**TECUMSEH LOCAL SCHOOL DISTRICT
CLARK COUNTY
JUNE 30, 2018**

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**TECUMSEH LOCAL SCHOOL DISTRICT
CLARK COUNTY
JUNE 30, 2018**

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INDEPENDENT AUDITOR'S REPORT

Tecumseh Local School District
Clark County
9760 West National Road
New Carlisle, Ohio 45344

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Tecumseh Local School District, Clark County, Ohio (the District), as of and for the fiscal ended June 30, 2018, 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 such 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.

One First National Plaza, 130 W. Second St., Suite 2040, Dayton, Ohio 45402
Phone: 937-285-6677 or 800-443-9274
www.ohioauditor.gov

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Tecumseh Local School District, Clark County, Ohio, as of June 30, 2018, and the respective changes in financial position thereof and the budgetary comparison for the General fund thereof for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 21 to the financial statements, during 2018, the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

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 and other post-employment benefit liabilities and pension and other post-employment benefit 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.

Supplementary and Other Information

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Schedule of Receipts and Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2019, 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.

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber
Auditor of State
Columbus, Ohio

February 22, 2019

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Tecumseh Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The discussion and analysis of Tecumseh Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2018. 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 notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2018 are as follows:

- In total, net position for governmental activities increased \$16,396,671. The decrease in the net pension/OPEB liability contributed to the increase.
- General revenues accounted for \$30,980,714 in revenue or 84 percent of governmental revenues. Program specific revenues in the form of charges for services and operating grants and contributions and interest accounted for \$5,724,510 or 16 percent of governmental revenues of \$36,705,224.
- The School District had \$20,308,553 in governmental expenses; \$5,724,510 of these expenses was offset by program specific charges for services, grants or contributions. General revenues for governmental activities (primarily taxes and entitlements) of \$30,980,714 also contributed to these programs.
- Among major funds, the General Fund had \$30,956,112 in revenues and \$29,203,885 in expenditures. The General Fund's balance increased \$1,791,539 from 2017.

Using this Generally Accepted Accounting Principles Report (GAAP)

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

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

Tecumseh Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains a 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 2018?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal 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, and some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility condition, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the School District reports governmental activities where most of the School District's programs and services are reported including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District does not have any business-type activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements 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 fund is the General 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 the 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Tecumseh Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The School District as a Whole

Table 1 provides a summary of the School District's net position for fiscal year 2018 compared to fiscal year 2017:

Table 1
Net Position

| | Governmental Activities | |
|---------------------------------------|-------------------------|-------------------|
| | 2017 - Restated | 2018 |
| Assets | | |
| Current and Other Assets | \$25,149,103 | \$27,978,246 |
| Capital Assets | 60,954,311 | 58,464,069 |
| Total Assets | <u>86,103,414</u> | <u>86,442,315</u> |
| Deferred Outflows of Resources | | |
| Deferred Charge on Refunding | 1,017,480 | 940,002 |
| Pension | 9,633,369 | 12,067,533 |
| OPEB | 69,955 | 374,342 |
| Total Deferred Outflows of Resources | <u>10,720,804</u> | <u>13,381,877</u> |
| Liabilities | | |
| Current and Other Liabilities | 2,872,377 | 3,673,423 |
| Long-Term Liabilities | | |
| Due Within One Year | 912,709 | 932,007 |
| Due in More Than One Year | | |
| Net Pension Liability | 50,462,316 | 37,535,518 |
| Net OPEB Liability | 10,419,167 | 8,382,347 |
| Other Amounts | 16,948,161 | 16,460,085 |
| Unamortized Bond Premium | 1,255,911 | 1,160,152 |
| Total Liabilities | <u>82,870,641</u> | <u>68,143,532</u> |
| Deferred Inflows of Resources | | |
| Pension | 1,815,259 | 1,890,706 |
| OPEB | - | 944,143 |
| Other Inflows | 7,093,843 | 7,404,665 |
| Total Deferred Inflows of Resources | <u>8,909,102</u> | <u>10,239,514</u> |
| Net Position | | |
| Net Investment in Capital Assets | 46,323,393 | 44,379,681 |
| Restricted | 3,086,501 | 3,136,922 |
| Unrestricted | (44,365,419) | (26,075,457) |
| Total Net Position | <u>5,044,475</u> | <u>21,441,146</u> |

Tecumseh Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2018, and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement 27". For fiscal year 2018, the School District adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). 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 OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) 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* or *net OPEB liability*. GASB 68 and GASB 75 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 and GASB 75 require the net pension liability and the net OPEB liability equal the School District's proportionate share of each plan's collective:

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

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute.

The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

Tecumseh Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

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/OPEB plan *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 retirement system is responsible for the administration of the pension and OPEB plans.

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 or the OPEB 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the School District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the School District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2018, from \$15,393,687 to \$5,044,475.

Unrestricted net position increased \$18,289,962 due to the decrease in the net pension and OPEB liabilities. Unrestricted net position is the part of net position that can be used to finance day-to-day activities without constraints established by grants or legal requirements.

Tecumseh Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Table 2 shows the changes in net position for governmental activities for fiscal year 2017 and 2018.

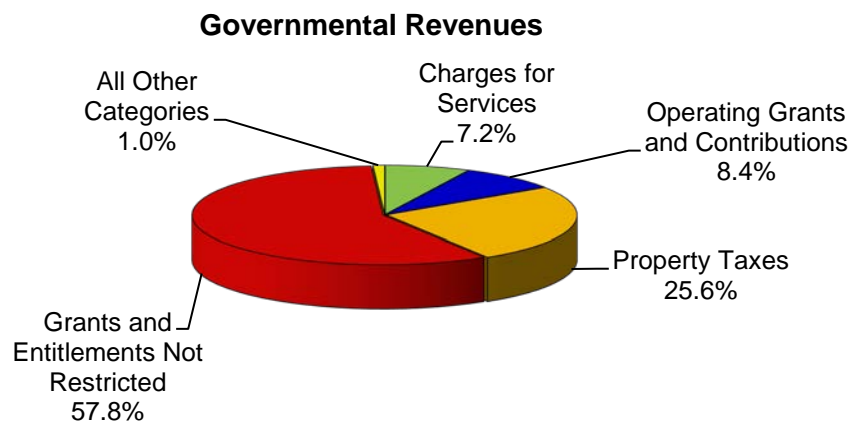
Table 2
Change in Net Position

| | Governmental Activities | | Percentage Change |
|--|--------------------------------|---------------------|------------------------------|
| | 2017 | 2018 | |
| Revenues | | | |
| Program Revenues: | | | |
| Charges for Services | \$2,515,323 | \$2,643,288 | 5.09% |
| Operating Grants and Contributions | 3,651,939 | 3,081,222 | (15.63) |
| Total Program Revenues | <u>6,167,262</u> | <u>5,724,510</u> | (7.18) |
| General Revenues | | | |
| Property Taxes | 9,083,884 | 9,383,587 | 3.30 |
| Grants and Entitlements Not Restricted | 21,282,551 | 21,234,700 | (0.22) |
| Other | 127,841 | 362,427 | 183.50 |
| Total General Revenues | <u>30,494,276</u> | <u>30,980,714</u> | 1.60 |
| Total Revenues | <u>36,661,538</u> | <u>36,705,224</u> | 0.12 |
| | | | |
| Program Expenses | | | |
| Instruction | 20,678,526 | 7,147,386 | (65.44) |
| Support Services: | | | |
| Pupils and Instructional Staff | 3,212,618 | 1,607,757 | (49.95) |
| Board of Education, Administration, Fiscal and Business | 3,579,893 | 1,790,601 | (49.98) |
| Operation and Maintenance of Plant | 3,341,740 | 3,031,914 | (9.27) |
| Pupil Transportation | 1,646,506 | 1,377,286 | (16.35) |
| Central | 82,432 | 66,397 | (19.45) |
| Operation of Non-Instructional Services | 1,803,306 | 1,588,330 | (11.92) |
| Extracurricular Activities | 604,462 | 441,290 | (26.99) |
| Interest and Fiscal Charges and Issuance Costs | 715,551 | 628,092 | (12.22) |
| Unallocated Depreciation | 2,652,141 | 2,629,500 | (0.85) |
| Total Expenses | <u>38,317,175</u> | <u>20,308,553</u> | (47.00) |
| Change in Net Position | <u>(1,655,637)</u> | <u>16,396,671</u> | (1,090.35) |
| Net Position, Beginning of Year | NA | 5,044,475 | |
| Net Position, End of Year | <u>\$5,044,475</u> | <u>\$21,441,146</u> | 325.04 |

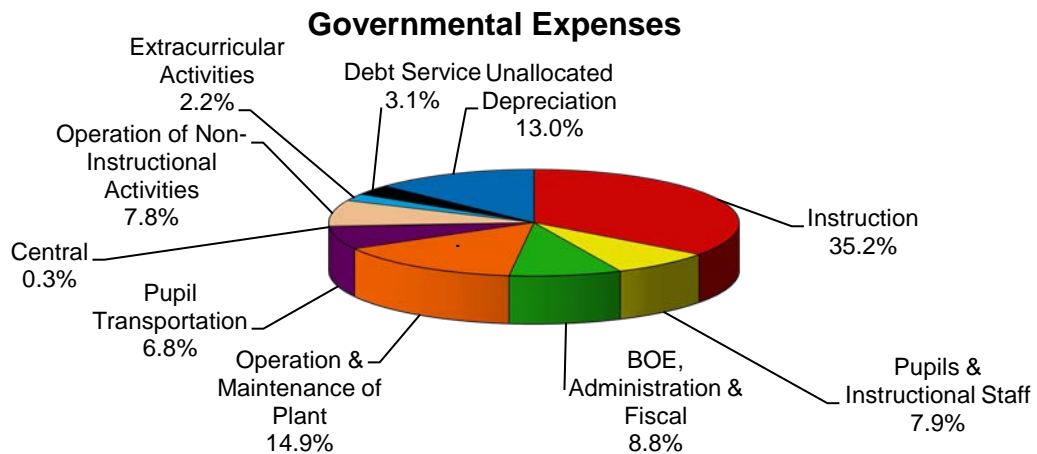
The information to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include the OPEB expense of \$69,955 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by inflows/outflows. The contractually required contribution is no longer a component of the OPEB expense. Under GASB 75, the 2018 statements report OPEB expense of (\$1,306,346). Consequently, in order to compare 2018 program expense to 2017, the following adjustments are needed:

Tecumseh Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

| | |
|--|----------------|
| Total 2018 program expense under GASB 75 | \$20,308,553 |
| Negative OPEB expense under GASB 75 | 1,306,346 |
| 2018 contractually required contribution | 90,718 |
| Adjusted 2018 program expenses | 21,705,617 |
| Total 2017 program expenses under GASB 45 | 38,317,175 |
| Decrease in program expenses not related to OPEB | (\$16,611,558) |



The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District operations. The overall revenue generated by a levy does not increase solely as a result of inflation. Property taxes made up 25.6% and 24.7% of revenues for governmental activities for the Tecumseh Local School District for fiscal year 2018 and 2017, respectively. The last new operating levy approved by the voters in the School District occurred in 1995. The School District is extremely dependent upon intergovernmental revenues provided by the State of Ohio and the federal government; approximately 57.8% and 58.1% of the School District's total revenue was received from intergovernmental sources during fiscal year 2018 and 2017, respectively.



Tecumseh Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Instruction comprises 35.2 percent of district expenses. Support services expenses make up 38.7 percent of the expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services.

Governmental Activities

Table 3 shows 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 Cost of Services 2017 | Net Cost of Services 2017 | Total Cost of Services 2018 | Net Cost of Services 2018 |
|--|--------------------------------|------------------------------|--------------------------------|------------------------------|
| Instruction | \$20,678,526 | (\$17,492,319) | \$7,147,386 | (\$4,174,704) |
| Support Services: | | | | |
| Pupils and Instructional Staff | 3,212,618 | (2,881,046) | 1,607,757 | (1,338,448) |
| Board of Education, Administration, Fiscal and Business | 3,579,893 | (3,223,830) | 1,790,601 | (1,470,990) |
| Operation and Maintenance of Plant | 3,341,740 | (3,256,053) | 3,031,914 | (2,960,900) |
| Pupil Transportation | 1,646,506 | (1,626,341) | 1,377,286 | (1,357,000) |
| Central | 82,432 | (82,432) | 66,397 | (66,397) |
| Operation of Non-Instructional Services | 1,803,306 | 99,760 | 1,588,330 | 200,268 |
| Extracurricular Activities | 604,462 | (319,960) | 441,290 | (158,280) |
| Interest and Fiscal Charges | 715,551 | (715,551) | 628,092 | (628,092) |
| Unallocated Depreciation | 2,652,141 | (2,652,141) | 2,629,500 | (2,629,500) |
| Total Expenses | \$38,317,175 | (\$32,149,913) | \$20,308,553 | (\$14,584,043) |

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupils and instructional staff include the activities involved with assisting staff with the content and process of teaching to pupils.

Board of education, administration, fiscal and business includes expenses associated with administrative and financial supervision of the School District.

Operation and maintenance of plant activities involve keeping the school grounds, buildings, and equipment in an effective working condition.

Central includes expenses related to planning, research, development and evaluation of support services, as well as the reporting of this information internally and to the public.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Tecumseh Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Operation of non-instructional services includes the preparation, delivery, and servicing of lunches, snacks and other incidental meals to students and school staff in connection with school activities along with after-school activities.

Extracurricular activities includes expenses related to student activities provided by the School District which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment and skill improvement.

Interest and fiscal charges involves the transactions associated with the payment of interest and other related charges to debt of the School District.

The dependence upon tax revenues is apparent. Approximately 72 percent of all activities are supported through taxes and other general revenues. The community along with State revenues, as a whole, is the primary support for the Tecumseh Local School District.

The School District's Funds

These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$36,797,047 and expenditures of \$34,982,456. The net change in fund balance for the General Fund was a \$1,791,539 increase. Contributing to the increase was an increase in property taxes and tuition and fees.

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 budgeted fund is the General Fund.

During the course of fiscal year 2018, the School District amended its General Fund budget, which resulted in appropriation increases of \$1,151,035 or 4%. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, the final budget basis revenue estimate was \$30,418,258. The original budgeted estimate was \$29,493,258. The 3% increase was primarily due to intergovernmental revenues.

Capital Assets

At the end of fiscal year 2018 the School District had \$58,464,069 invested in governmental land, land improvements, buildings and improvements, furniture and equipment, and vehicles.

Table 4 shows fiscal year 2018 balances compared to fiscal year 2017.

Tecumseh Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

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

| | 2017 | 2018 |
|----------------------------|--------------|--------------|
| Land | \$495,386 | \$520,022 |
| Land Improvements | 76,366 | 76,366 |
| Buildings and Improvements | 85,414,019 | 85,414,019 |
| Furniture and Equipment | 3,382,354 | 3,410,960 |
| Vehicles | 3,053,146 | 3,259,367 |
| Accumulated Depreciation | (31,466,960) | (34,216,665) |
| Totals | \$60,954,311 | \$58,464,069 |

Overall capital assets decreased \$2,490,242 from fiscal year 2017 to fiscal year 2018. Depreciation expense exceeded capital asset additions resulting in the decrease. Additions for 2018 included three buses, radios for buses, a postage meter and a stock trailer. For more information on capital assets see Note 8 of the Basic Financial Statements.

Debt Administration

At June 30, 2018, the School District had the following outstanding long-term debt:

| | Amount Outstanding 6/30/2017 | Amount Outstanding 6/30/2018 |
|-------------------------------------|------------------------------------|------------------------------------|
| Governmental Activities | | |
| General Obligation Bonds 2004 | \$1,926,301 | \$1,371,084 |
| Refunding Bonds 2012 | 8,189,887 | 8,181,162 |
| Refunding Bonds 2013 | 5,765,000 | 5,710,000 |
| Total General Obligation Bonds | \$15,881,188 | \$15,262,246 |
| Unamortized Premium on Bonds | | |
| Refunding Bonds 2012 | \$759,619 | \$708,978 |
| Refunding Bonds 2013 | 496,292 | 451,174 |
| Total Unamortized Premiums on Bonds | \$1,255,911 | \$1,160,152 |

For more information on the School District's debt, see Note 14 of the Basic Financial Statements.

Tecumseh Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Current Financial Issues and Concerns

There was outstanding support from the local citizens and business community for the bond and maintenance levy in November 2003. The School District and the Ohio School Facilities Commission (Classroom Facilities Assistance Program) entered into an agreement pursuant to Ohio Revised Code Section 3318.30 in January 2004. The Ohio School Facilities Commission agreed to pay 77% of the building project. The building status is as follows: Donnelsville Elementary and Medway Elementary are complete and were occupied at the beginning of fiscal year 2007; the new New Carlisle Elementary (formerly known as Westlake Elementary), the Park Layne Elementary and the new Tecumseh Middle School buildings are complete and were occupied in January 2007; Tecumseh High School was completed in fiscal year 2008. The close-out of the program occurred in fiscal year 2010.

On November 2, 2010, the voters of Tecumseh Local School District rejected a proposed 5 year, 1.5% earned income tax.

On May 3, 2011, the voters of Tecumseh Local School District rejected a proposed three year 6.61 mills property tax levy.

On November 8, 2011, the voters of the School District renewed a five-year 2.46 mill operating levy that generates approximately \$712,000 annually.

On November 6, 2012, the voters of the School District voted against an additional 8.95 mill operating levy.

On May 7, 2013 and August 6, 2013, the voters of the School District voted against an additional 12.37 mill operating levy.

The board of education placed a 12.37 mill emergency levy again on the November 5, 2013, ballot to raise \$3,500,000. This levy also failed.

In May 2014, the voters of the School District approved a five year, 2.81 mill renewal levy anticipated to generate \$791,000 and a five year 4.67 mill renewal levy anticipated to generate \$1,351,000.

On November 4, 2014, the voters approved a renewal of a tax for the purpose of improvements, renovations, and additions, to school facilities, and providing equipment, furnishings, and site improvements at a rate of four (4.00) mills for each one dollar of valuation. The five-year levy is anticipated to generate \$707,084 during the first year of collection.

The School District voters renewed a 2.54 levy on November 8, 2016. The levy was for emergency purposes of the School District. The levy is anticipated to generate \$712,000 annually.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Denise Robinson, Treasurer at Tecumseh Local School District, 9760 West National Road, New Carlisle, OH 45344 or email denise.robinson@tecumsehlocal.org.

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Tecumseh Local School District

Statement of Net Position

June 30, 2018

| | <u>GOVERNMENTAL ACTIVITIES</u> |
|--|------------------------------------|
| Assets: | |
| Equity in Pooled Cash and Cash Equivalents | \$17,419,113 |
| Cash and Cash Equivalents in Segregated Accounts | 4,500 |
| Accounts Receivable | 75,056 |
| Intergovernmental Receivable | 616,779 |
| Inventory of Supplies and Materials | 35,944 |
| Prepaid Items | 5,460 |
| Property and Other Taxes Receivable | 9,821,394 |
| Depreciable Capital Assets, Net | 57,944,047 |
| Land | 520,022 |
| Total Assets | <u>86,442,315</u> |
| Deferred Outflows of Resources: | |
| Deferred Charge on Refunding | 940,002 |
| Pension | 12,067,533 |
| OPEB | 374,342 |
| Total Deferred Outflows of Resources | <u>13,381,877</u> |
| Liabilities: | |
| Accounts Payable | 50,737 |
| Accrued Wages and Benefits Payable | 3,051,634 |
| Intergovernmental Payable | 450,010 |
| Accrued Interest Payable | 67,270 |
| Matured Compensated Absences Payable | 7,107 |
| Vacation Leave Payable | 46,665 |
| Long Term Liabilities: | |
| Due Within One Year | 932,007 |
| Due In More Than One Year | |
| Net Pension Liability | 37,535,518 |
| Net OPEB Liability | 8,382,347 |
| Other Amounts Due In More Than One Year | 16,460,085 |
| Unamortized Premium on Bonds | 1,160,152 |
| Total Liabilities | <u>68,143,532</u> |
| Deferred Inflows of Resources: | |
| Property Taxes not Levied to Finance Current Year Operations | 7,404,665 |
| Pension | 1,890,706 |
| OPEB | 944,143 |
| Total Deferred Inflows of Resources | <u>10,239,514</u> |
| Net Position: | |
| Net Investment in Capital Assets | 44,379,681 |
| Restricted for: | |
| Debt Service | 1,338,804 |
| Capital Projects | 1,677,250 |
| Set-asides | 80,032 |
| Non-expendable | 2,429 |
| Unclaimed Monies | 38,407 |
| Unrestricted | (26,075,457) |
| Total Net Position | <u><u>\$21,441,146</u></u> |

See Accompanying Notes to the Basic Financial Statements

Tecumseh Local School District
Statement of Activities
For the Fiscal Year Ended June 30, 2018

| | EXPENSES | PROGRAM REVENUES | | NET (EXPENSE) |
|---|---------------------|--------------------------------|---|-------------------------------------|
| | | CHARGES FOR SERVICES AND SALES | OPERATING GRANTS CONTRIBUTIONS AND INTEREST | REVENUE AND CHANGES IN NET POSITION |
| | | | | TOTAL GOVERNMENTAL ACTIVITIES |
| Governmental Activities | | | | |
| Instruction: | | | | |
| Regular | \$3,090,914 | \$1,628,205 | \$190,912 | (\$1,271,797) |
| Special | 2,685,391 | 41,045 | 965,629 | (1,678,717) |
| Vocational | 108,384 | 6,305 | 140,586 | 38,507 |
| Other | 1,262,697 | | | (1,262,697) |
| Support Services: | | | | |
| Pupils | 957,831 | | 241,175 | (716,656) |
| Instructional Staff | 649,926 | | 28,134 | (621,792) |
| Board of Education | 81,135 | | | (81,135) |
| Administration | 1,153,926 | 34,312 | 284,404 | (835,210) |
| Fiscal | 530,784 | 895 | | (529,889) |
| Business | 24,756 | | | (24,756) |
| Operation and Maintenance of Plant | 3,031,914 | 62,014 | 9,000 | (2,960,900) |
| Pupil Transportation | 1,377,286 | 14,688 | 5,598 | (1,357,000) |
| Central | 66,397 | | | (66,397) |
| Operation of Non-Instructional Services | 1,588,330 | 579,082 | 1,209,516 | 200,268 |
| Extracurricular Activities | 441,290 | 276,742 | 6,268 | (158,280) |
| Interest and Fiscal Charges | 628,092 | | | (628,092) |
| Depreciation - Unallocated | 2,629,500 | | | (2,629,500) |
| Total | \$20,308,553 | \$2,643,288 | \$3,081,222 | (14,584,043) |

General Revenues:

Property Taxes Levied for:

| | |
|---|-------------------|
| General Purposes | 7,597,201 |
| Capital Outlay | 604,586 |
| Debt Service | 1,069,048 |
| Capital Maintenance | 112,752 |
| Grants and Entitlements not Restricted to Specific Programs | 21,234,700 |
| Gifts and Donations not Restricted to Specific Programs | 1 |
| Investment Earnings | 178,444 |
| Miscellaneous | 183,982 |
| Total General Revenues | 30,980,714 |

Change in Net Position 16,396,671

Net Position Beginning of Year - Restated (Note 21) 5,044,475

Net Position End of Year \$21,441,146

See Accompanying Notes to the Basic Financial Statements

Tecumseh Local School District

Balance Sheet

Governmental Funds

June 30, 2018

| | GENERAL | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|---|---------------------|--------------------------------|--------------------------------|
| Assets: | | | |
| Equity in Pooled Cash and Cash Equivalents | \$12,165,281 | \$5,253,832 | \$17,419,113 |
| Cash and Cash Equivalents in Segregated Accounts | | 4,500 | 4,500 |
| Receivables: | | | |
| Property and Other Taxes | 7,948,098 | 1,873,296 | 9,821,394 |
| Accounts | 75,056 | | 75,056 |
| Intergovernmental | 96,036 | 520,743 | 616,779 |
| Interfund | 21,255 | | 21,255 |
| Prepaid Items | 5,460 | | 5,460 |
| Inventory of Supplies and Materials | 15,497 | 20,447 | 35,944 |
| Total Assets | 20,326,683 | 7,672,818 | 27,999,501 |
| Liabilities: | | | |
| Accounts Payable | 35,410 | 15,327 | 50,737 |
| Matured Compensated Absences Payable | 7,107 | | 7,107 |
| Accrued Wages and Benefits Payable | 2,803,627 | 248,007 | 3,051,634 |
| Intergovernmental Payable | 411,138 | 38,872 | 450,010 |
| Interfund Payable | | 21,255 | 21,255 |
| Total Liabilities | 3,257,282 | 323,461 | 3,580,743 |
| Deferred Inflows of Resources: | | | |
| Property Taxes not Levied to Finance Current Year Operations | 6,075,720 | 1,328,945 | 7,404,665 |
| Unavailable Revenue | 479,520 | 514,591 | 994,111 |
| Total Deferred Inflows of Resources | 6,555,240 | 1,843,536 | 8,398,776 |
| Fund Balances: | | | |
| Nonspendable | 59,364 | 22,447 | 81,811 |
| Restricted | | 5,567,021 | 5,567,021 |
| Assigned | 1,922,403 | | 1,922,403 |
| Unassigned | 8,532,394 | (83,647) | 8,448,747 |
| Total Fund Balances | 10,514,161 | 5,505,821 | 16,019,982 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | \$20,326,683 | \$7,672,818 | \$27,999,501 |

See Accompanying Notes to the Basic Financial Statements

Tecumseh Local School District
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2018

| | | |
|----------------------------------|--|--------------|
| Total Governmental Fund Balances | | \$16,019,982 |
|----------------------------------|--|--------------|

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

| | | |
|---------------------------|---------------------|------------|
| Land | 520,022 | |
| Land Improvements | 76,366 | |
| Building and Improvements | 85,414,019 | |
| Furniture and Equipment | 3,410,960 | |
| Vehicles | 3,259,367 | |
| Accumulated Depreciation | <u>(34,216,665)</u> | 58,464,069 |
| Total Capital Assets | | |

Some assets/deferred outflows used in governmental activities are not financial resources and therefore are not reported in the funds.

| | | |
|------------------------------|--|---------|
| Deferred Charge on Refunding | | 940,002 |
|------------------------------|--|---------|

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:

| | | |
|------------------------------|----------------|---------|
| Property Taxes Receivable | 595,973 | |
| Intergovernmental Receivable | <u>398,138</u> | 994,111 |

The net pension/OPEB 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/OPEB | 12,441,875 | |
| Deferred Inflows - Pension/OPEB | (2,834,849) | |
| Net Pension/OPEB Liability | <u>(45,917,865)</u> | (36,310,839) |

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

| | | |
|----------------------------------|--------------------|---------------------|
| General Obligation Bonds Payable | (15,262,246) | |
| Unamortized Premium on Bonds | (1,160,152) | |
| Accrued Interest Payable | (67,270) | |
| Vacation Leave Payable | (46,665) | |
| Compensated Absences Payable | <u>(2,129,846)</u> | <u>(18,666,179)</u> |

| | | |
|---|--|----------------------------|
| Net Position of Governmental Activities | | <u><u>\$21,441,146</u></u> |
|---|--|----------------------------|

See Accompanying Notes to the Basic Financial Statements

Tecumseh Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2018

| | GENERAL | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--|---------------------|--------------------------------|--------------------------------|
| Revenues: | | | |
| Property and Other Taxes | \$7,612,480 | \$1,789,714 | \$9,402,194 |
| Intergovernmental | 21,010,079 | 3,374,267 | 24,384,346 |
| Interest | 162,018 | 31,189 | 193,207 |
| Tuition and Fees | 1,748,617 | | 1,748,617 |
| Rent | 47,249 | | 47,249 |
| Extracurricular Activities | 11,919 | 159,858 | 171,777 |
| Gifts and Donations | 22,916 | 6,426 | 29,342 |
| Charges for Services | 131,222 | 446,260 | 577,482 |
| Miscellaneous | 209,612 | 33,221 | 242,833 |
| Total Revenues | <u>30,956,112</u> | <u>5,840,935</u> | <u>36,797,047</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 11,937,696 | 473,592 | 12,411,288 |
| Special | 4,622,273 | 925,968 | 5,548,241 |
| Vocational | 463,754 | 4,999 | 468,753 |
| Other | 1,263,047 | | 1,263,047 |
| Support Services: | | | |
| Pupils | 1,784,840 | 231,337 | 2,016,177 |
| Instructional Staff | 1,009,275 | 18,553 | 1,027,828 |
| Board of Education | 81,135 | | 81,135 |
| Administration | 2,552,038 | 176,003 | 2,728,041 |
| Fiscal | 599,792 | 34,563 | 634,355 |
| Business | 24,756 | | 24,756 |
| Operation and Maintenance of Plant | 2,810,965 | 561,274 | 3,372,239 |
| Pupil Transportation | 1,478,519 | 267,012 | 1,745,531 |
| Central | 83,781 | | 83,781 |
| Operation of Non-Instructional Services | 75,674 | 1,573,357 | 1,649,031 |
| Extracurricular Activities | 416,340 | 161,876 | 578,216 |
| Capital Outlay | | 84,611 | 84,611 |
| Debt Service: | | | |
| Principal Retirement | | 890,000 | 890,000 |
| Interest and Fiscal Charges | | 375,426 | 375,426 |
| Total Expenditures | <u>29,203,885</u> | <u>5,778,571</u> | <u>34,982,456</u> |
| Excess of Revenues Over (Under) Expenditures | <u>1,752,227</u> | <u>62,364</u> | <u>1,814,591</u> |
| Other Financing Sources (Uses) | | | |
| Proceeds from Sale of Capital Assets | 5,000 | | 5,000 |
| Insurance Recoveries | 34,312 | | 34,312 |
| Transfers In | | 131,366 | 131,366 |
| Transfers Out | | (131,366) | (131,366) |
| Other Financing Sources (Uses) | <u>39,312</u> | <u>0</u> | <u>39,312</u> |
| Net Change in Fund Balances | 1,791,539 | 62,364 | 1,853,903 |
| Fund Balances at Beginning of Year | <u>8,722,622</u> | <u>5,443,457</u> | <u>14,166,079</u> |
| Fund Balances at End of Year | <u>\$10,514,161</u> | <u>\$5,505,821</u> | <u>\$16,019,982</u> |

See Accompanying Notes to the Basic Financial Statements

Tecumseh 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, 2018*

Net Change in Fund Balances - Total Governmental Funds \$1,853,903

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. In the current period, these amounts are:

| | | |
|-------------------------|-------------|-------------|
| Capital Asset Additions | 309,973 | |
| Depreciation Expense | (2,795,164) | |
| Total | (2,485,191) | (2,485,191) |

The proceeds from the sale of capital assets are reported as an other financing source in the governmental funds. However, the cost of the capital assets is removed from the capital assets account on the statement of net position and is offset against the proceeds from the sale of capital assets resulting in a loss on disposal of capital assets on the statement of activities.

| | | |
|------------------------------------|--|---------|
| Loss on Disposal of Capital Assets | | (5,051) |
|------------------------------------|--|---------|

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. In the current fiscal year, these amounts consist of:

| | | |
|--|-----------|---------|
| General Obligation Bonds | 890,000 | |
| Amortization of Premium on Bonds | 95,759 | |
| Amortization of Deferred Charge on Refunding Bonds | (77,478) | |
| Accretion on General Obligation Bonds | (271,058) | |
| Total | 637,223 | 637,223 |

Some revenues that will not be collected for several months after the School District's fiscal year-end are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues decreased by this amount this year.

| | | |
|--------------------------|-----------|-----------|
| Property Taxes | (18,607) | |
| Intergovernmental Grants | (112,528) | |
| Total | (131,135) | (131,135) |

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.

| | | |
|---------|-----------|-----------|
| Pension | 2,532,463 | |
| OPEB | 90,718 | |
| Total | 2,623,181 | 2,623,181 |

Except for amounts reported as deferred inflows/outflows, change in net pension/OPEB liability are reported as pension expense in the statement of activities.

| | | |
|---------|------------|------------|
| Pension | 12,753,052 | |
| OPEB | 1,306,346 | |
| Total | 14,059,398 | 14,059,398 |

Some items 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. These activities consist of:

| | | |
|--------------------------------------|-----------|-----------|
| Increase in Vacation Leave Payable | (5,604) | |
| Increase in Compensated Absences | (150,164) | |
| Decrease in Accrued Interest Payable | 111 | |
| Total | (155,657) | (155,657) |

Change in Net Position of Governmental Activities \$16,396,671

See Accompanying Notes to the Basic Financial Statements

Tecumseh 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, 2018

| | <u>BUDGETED AMOUNTS</u> | | | VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE) |
|---|-------------------------|---------------------|---------------------|---|
| | <u>ORIGINAL</u> | <u>FINAL</u> | <u>ACTUAL</u> | |
| Revenues: | | | | |
| Property and Other Taxes | \$7,772,255 | \$7,772,255 | \$8,201,879 | \$429,624 |
| Tuition and Fees | 1,626,245 | 1,626,245 | 1,752,911 | 126,666 |
| Interest | 70,278 | 70,278 | 151,887 | 81,609 |
| Intergovernmental | 19,937,271 | 20,862,271 | 21,044,020 | 181,749 |
| Gifts and Donations | | | 1 | 1 |
| Rent | 36,800 | 36,800 | 47,249 | 10,449 |
| Miscellaneous | 50,409 | 50,409 | 109,208 | 58,799 |
| Total Revenues | <u>29,493,258</u> | <u>30,418,258</u> | <u>31,307,155</u> | <u>888,897</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 11,583,630 | 11,637,963 | 11,561,793 | 76,170 |
| Special | 4,257,073 | 4,324,764 | 4,509,137 | (184,373) |
| Vocational | 412,673 | 457,683 | 452,069 | 5,614 |
| Other | 1,097,567 | 1,116,966 | 1,273,953 | (156,987) |
| Support Services: | | | | |
| Pupils | 1,775,458 | 1,788,270 | 1,745,881 | 42,389 |
| Instructional Staff | 885,815 | 976,699 | 997,507 | (20,808) |
| Board of Education | 51,161 | 60,413 | 86,712 | (26,299) |
| Administration | 2,388,878 | 2,450,095 | 2,443,125 | 6,970 |
| Fiscal | 575,665 | 582,408 | 606,393 | (23,985) |
| Business | 15,734 | 37,822 | 31,473 | 6,349 |
| Operation and Maintenance of Plant | 2,807,130 | 3,173,891 | 2,991,877 | 182,014 |
| Pupil Transportation | 1,444,251 | 1,836,828 | 1,504,821 | 332,007 |
| Central | 81,496 | 82,702 | 85,805 | (3,103) |
| Operation of Non-Instructional Services | 2,004 | 2,004 | 72 | 1,932 |
| Extracurricular Activities | 439,215 | 440,277 | 409,032 | 31,245 |
| Total Expenditures | <u>27,817,750</u> | <u>28,968,785</u> | <u>28,699,650</u> | <u>269,135</u> |
| Excess of Revenues Under Expenditures | <u>1,675,508</u> | <u>1,449,473</u> | <u>2,607,505</u> | <u>1,158,032</u> |
| Other Financing Sources (Uses): | | | | |
| Proceeds from Sale of Capital Assets | 15,349 | 15,349 | 5,000 | (10,349) |
| Insurance Recoveries | 23,594 | 23,594 | 34,312 | 10,718 |
| Refund of Prior Year Expenditure | 972 | 972 | 1,084 | 112 |
| Transfers In | | | 16,007 | 16,007 |
| Advance In | 181,907 | 181,907 | 68,897 | (113,010) |
| Advance Out | | | (18,221) | (18,221) |
| Total Other Financing Sources (Uses) | <u>221,822</u> | <u>221,822</u> | <u>107,079</u> | <u>(114,743)</u> |
| Net Change in Fund Balances | 1,897,330 | 1,671,295 | 2,714,584 | 1,043,289 |
| Fund Balance at Beginning of Year | 7,563,069 | 7,563,069 | 7,563,069 | |
| Prior Year Encumbrances Appropriated | 1,039,996 | 1,039,996 | 1,039,996 | |
| Fund Balance at End of Year | <u>\$10,500,395</u> | <u>\$10,274,360</u> | <u>\$11,317,649</u> | <u>\$1,043,289</u> |

See Accompanying Notes to the Basic Financial Statements

Tecumseh Local School District
Statement of Assets and Liabilities - Fiduciary Fund
June 30, 2018

| | <u>AGENCY</u> |
|--|-------------------------|
| Assets: | |
| Equity in Pooled Cash and Cash Equivalents | <u><u>\$102,192</u></u> |
| Liabilities: | |
| Due to Students | <u><u>\$102,192</u></u> |

See Accompanying Notes to the Basic Financial Statements

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Tecumseh Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government and provides educational services as mandated by State statute and federal guidelines.

The School District was established in 1875 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 50 square miles. It is located in Clark County, and includes all of the City of New Carlisle and portions of Bethel and Pike Townships. It is staffed by 161 non-certificated employees, 198 certificated full-time teaching personnel and 22 administrators, who provide services to approximately 3,000 students and other community members. The School District currently operates six instructional buildings, one administrative building, and one garage.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Tecumseh Local School District, this includes general operations, food service, latchkey, 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. The School District is also financially accountable for any 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. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the School District, are accessible to the School District and are significant in amount to the School District. The School District has no component units.

The School District participates in five jointly governed organizations and two insurance purchasing pools. These organizations are discussed in Note 16 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

Miami Valley Educational Computer Association
Southwestern Ohio Educational Purchasing Council
Clark County Family and Children First Council
Springfield-Clark Career Technology Center
Tecumseh Education Foundation

Insurance Purchasing Pool:

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan
Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Tecumseh Local 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 most significant of the School District's accounting policies are described below.

A. 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 government-wide financial statements distinguish between those activities that are governmental and those that are business-type. The School District, however, has no activities which are reported as business-type.

The statement of net position presents the financial condition of the governmental 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. 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. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements:

During the fiscal 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 fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The fiduciary funds are reported by type.

B. 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 School District divides its funds into two categories: governmental and fiduciary.

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Funds:

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

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

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

Fiduciary Fund:

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 has no funds which are classified as trust funds. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The School District's agency fund accounts for those student activity programs which have student participation in the activity and have students involved in the management of the program. This fund typically includes those student activities which consist of a student body, student president, student treasurer, and faculty advisor.

C. Measurement Focus

Government-wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the School District are included on the statement of net position. The statement of activities accounts for increases (i.e., revenues) and decreases (i.e., 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 current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared.

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

D. Basis of Accounting

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

Non-exchange 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. 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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, investment earnings, tuition, and student fees.

Deferred Outflows/Inflows of Resources

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

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A deferred charge on refunding results from the difference in carrying value of the 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 to pension/OPEB are explained in Note 10 and Note 11.

In addition to liabilities, the statements of net position and balance sheets report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes, pension/OPEB, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2018, but which were levied to finance fiscal year 2019 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables, which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension/OPEB are reported on the government-wide statement of net position. (See Note 10 and Note 11)

Expenses/Expenditures:

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. Allocation of costs, such as depreciation and amortization are not recognized in governmental funds.

E. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as “Equity in Pooled Cash and Cash Equivalents.”

The School District has segregated bank accounts for monies held separate from the School District’s central bank account. These depository accounts are presented on the combined balance sheet as “Cash and Cash Equivalents in Segregated Accounts” since they are not required to be deposited in the School District Treasury.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based upon quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit are reported at cost.

During fiscal year 2018, the School District invested in commercial paper and First American Treasury Obligations Fund.

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2018 amounted to \$162,018, which includes \$54,003 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 reported as cash equivalents.

F. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used.

Inventory consists of expendable supplies held for consumption and purchased and donated food held for resale.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

H. Capital Assets

The School District's only capital assets are general capital assets. 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 fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand 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.

All reported capital assets except for 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:

| <u>Description</u> | <u>Estimated Lives</u> |
|------------------------------|------------------------|
| Land Improvements | 10 years |
| Buildings and Improvements | 30 years |
| Furniture/Equipment/Fixtures | 5-10 years |
| Vehicles | 10 years |

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Accrued Liabilities and Long-term Obligations

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

In general, 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 governmental funds. However, compensated absences, special termination benefits and contractually required pension contributions 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.

J. 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 for administrators because they can use their balance until the end of August and can request a cash payout of up to 10 days.

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 all employees after ten years of service with the School District.

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

On governmental fund financial statements, compensated absences are reported as liabilities and expenditures 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 funds from which the employees will be paid.

K. Pensions/Other Postemployment Benefits (OPEB)

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

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Fund Balance

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

Non-spendable – The non-spendable classification 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’ 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 classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the 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 classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education.

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 fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

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

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Net Position

Net position represents the difference between assets, liabilities, and deferred outflows/inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes includes activities for food service operations, music and athletic programs, and federal and state grants restricted to expenditures for specified purposes.

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. None of the restricted net position amounts were restricted by enabling legislation.

N. Bond Discounts/Premiums

On the government-wide financial statements, bond premiums and discounts are deferred and amortized over the term of the bonds using the straight-line method, since the results are not significantly different from the effective interest method. Bond premiums/discounts are presented as additions/reductions to the face amount of the bonds payable. On the government-wide fund financial statements, bond premiums and discounts are recognized in the period in which the debt is issued.

O. Interfund Activity

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

P. Estimates

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

Q. Budgetary Data

All funds, other than the agency fund, 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.

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 fund level.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2018.

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.

NOTE 3 – 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 basis), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

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 fund liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as assigned fund balance (GAAP).
4. Perspective differences as a result of fund structure differences.

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

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 3 – BUDGETARY BASIS OF ACCOUNTING (Continued)

Net Change in Fund Balance

| | General |
|-------------------------|-------------|
| GAAP Basis | \$1,791,539 |
| Revenue Accruals | 542,553 |
| Expenditure Accruals | 913,573 |
| Perspective Differences | (62,774) |
| Advances | 50,676 |
| Encumbrances | (520,983) |
| Budget Basis | \$2,714,584 |

NOTE 4 - FUND DEFICITS

The Title IC, Race to the Top, Title III LEP, Title I, and Title II-A special revenue funds had deficit fund balances at June 30, 2018, of \$20,741, \$2,478, \$5,093, \$46,352, and \$8,983, respectively. Management expects the remaining deficits in these funds to be corrected in early fiscal year 2019 when grant dollars are received.

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or protected by eligible securities pledged to the School District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

At fiscal year-end, the carrying amount of the School District’s deposits was \$15,515,016 and the bank balance was \$15,948,875. \$15,293,220 of the School District’s deposits was insured by federal depository insurance. As of June 30, 2018, \$655,655 of the School District’s bank balance of \$15,948,875 was collateralized through the OPCS.

Investments

At June 30, 2018, the School District had the following investments:

| Investment | Investment Maturity | | Fair Value | Level |
|--|---------------------|------------------|--------------------|-------|
| | Less than 1 Yr | | | |
| First American Treasury Obligations Fund | \$ | 12,997 | \$ 12,997 | 1 |
| Commercial Paper | | 1,997,792 | 1,997,792 | 1 |
| | \$ | <u>2,010,789</u> | <u>\$2,010,789</u> | |

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the District’s recurring fair value measurements as of June 30, 2018.

Interest Rate Risk - The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District’s investment policy does not further limit its investment choices.

Credit Risk – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The School District’s investment policy does not further limit its investment choices. Moody’s rates the School District’s investment in the commercial paper P-1. Moody’s rates the School District’s investment in the First American Treasury Obligations Fund as Aaa-mf.

Concentration of Credit Risk - The School District places no limits on the amount the School District may invest in any one issuer.

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

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real property and public utility property located in the School District. Real property tax receipts received in calendar year 2018 represent the collection of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed values as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value.

Public utilities subject to taxation on their tangible personal property include electric, rural electric, natural gas, pipeline, water works, water transportation, heating and telegraph companies. The tax rates vary according to the type of public utility. Public utility taxes are levied on all tangible personal property owned and located in Ohio on December 31 of the preceding year.

Real property and public utility taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Clark County and Miami 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, 2018, are available to finance fiscal year 2018 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, public utility property and tangible personal property taxes, which are measurable as of June 30, 2018, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflow of resources. The amount available as an advance is recognized as revenue. On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been shown as a deferred inflow of resources.

The amount available as an advance at June 30, 2018, was \$1,392,858 in the general fund and \$427,898 in the other governmental funds. The amount available as an advance at June 30, 2017, was \$1,982,257 in the general fund and \$479,333 in the other governmental funds.

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 6 - PROPERTY TAXES (continued)

The assessed values upon which the fiscal year 2018 taxes were collected are:

| | 2017 Second- Half Collections | | 2018 First- Half Collections | |
|---|----------------------------------|---------------|---------------------------------|---------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | \$267,964,890 | 95.5% | \$268,743,740 | 95.4% |
| Public Utility Personal | 12,509,530 | 4.5 | 13,099,060 | 4.6 |
| Total | \$280,474,420 | 100.0% | \$281,842,800 | 100.0% |
| Tax Rate per \$1,000 of Assessed Valuation | \$45.46 | | \$45.44 | |

NOTE 7 - RECEIVABLES

Receivables at June 30, 2018, consisted of property taxes, accounts (tuition and student fees), interfund, and intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of intergovernmental receivables is as follows:

| <u>Intergovernmental Receivable</u> | <u>Amounts</u> |
|--------------------------------------|------------------|
| Governmental Activities: | |
| Workers' Compensation Refund | \$65,307 |
| Special Education Grant | 1,180 |
| SERS Refund | 10,673 |
| Title I Migrant | 202,509 |
| Medicaid | 1,617 |
| E-rate | 6,727 |
| Title I | 141,490 |
| IDEA-B grant | 136,745 |
| Title III LEP | 12,490 |
| Foundation FY 18 monies | 11,712 |
| Title IV-A | 9,293 |
| Title II-A | 17,036 |
| Total Governmental Activities | \$616,779 |

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 8 - CAPITAL ASSETS

Capital asset activity for governmental activities for the fiscal year ended June 30, 2018, was as follows:

| | Balance 6/30/2017 | Additions | Deletions | Balance 6/30/2018 |
|--|----------------------|---------------|-----------|----------------------|
| Governmental Assets | | | | |
| <i>Capital Assets, not being depreciated</i> | | | | |
| Land | \$495,386 | \$24,636 | \$0 | \$520,022 |
| <i>Capital Assets, being depreciated</i> | | | | |
| Land Improvements | 76,366 | - | - | 76,366 |
| Building and Improvements | 85,414,019 | - | - | 85,414,019 |
| Furniture/Equipment/Fixtures | 3,382,354 | 28,606 | - | 3,410,960 |
| Vehicles | 3,053,146 | 256,731 | (50,510) | 3,259,367 |
| Total Capital Assets, being depreciated | 91,925,885 | 285,337 | (50,510) | 92,160,712 |
| Less: Accumulated Depreciation | | | | |
| Land Improvements | (38,952) | (2,976) | - | (41,928) |
| Building and Improvements | (26,854,243) | (2,552,918) | - | (29,407,161) |
| Furniture/Equipment/Fixtures | (2,394,339) | (108,302) | - | (2,502,641) |
| Vehicles | (2,179,426) | (130,968) | 45,459 | (2,264,935) |
| Total Accumulated Depreciation | (31,466,960) | (2,795,164) | 45,459 | (34,216,665) |
| Total Capital Assets, being depreciated, net | 60,458,925 | (2,509,827) | (5,051) | 57,944,047 |
| Governmental Activities Capital Assets, net | \$60,954,311 | (\$2,485,191) | (\$5,051) | \$58,464,069 |

Depreciation expense was charged to governmental functions as follows:

| | |
|---|-------------|
| Instruction: | |
| Regular | \$19,814 |
| Vocational | 3,682 |
| Support Services: | |
| Administration | 3,677 |
| Operation and Maintenance of Plant | 13,695 |
| Transportation | 123,236 |
| Operation of Non-Instructional Services | 963 |
| Extracurricular Activities | 597 |
| Unallocated | 2,629,500 |
| Total | \$2,795,164 |

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 9 - RISK MANAGEMENT

A. 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 2018, the School District contracted with Arthur J. Gallagher & Co. through the Southwestern Ohio Educational Purchasing Cooperative for property, general liability and automobile insurance.

Coverage provided by Arthur J. Gallagher & Co. is as follows:

| | |
|---|----------------|
| Building and Contents-replacement cost | \$250,000,000 |
| Inland Marine Coverage (\$3,500 deductible) | Included above |
| Crime Insurance (\$5,000 deductible) | 1,000,000 |
| Automobile Liability | 1,000,000 |
| School Errors & Omissions Liability | 5,000,000 |
| General Liability | 3,000,000 |
| Excess Liability | 5,000,000 |
| Fiduciary Liability (\$1,500) deductible | 1,000,000 |

Settled claims have not exceeded this commercial coverage in the past three fiscal years. There has been no significant reduction in insurance coverage from last fiscal year.

B. Workers' Compensation

For fiscal year 2018, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (Note 16). 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 percent age 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 ensures 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 Hunter Consulting provides administrative, cost control, and actuarial services to the GRP.

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

The net pension liability represents the 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 under Employers/Audit Resources.

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

Age and service requirements for retirement are as follows:

| | Eligible to Retire on or before August 1, 2017 * | Eligible to Retire 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, 2018, the allocation to pension, death benefits, and Medicare B was 14 percent; .5 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$551,957 for fiscal year 2018. Of this amount \$0 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.

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

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

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes. A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and was increased one percent each year until it reached 14 percent on July 1, 2016. For the fiscal year ended June 30, 2018, plan members were required to contribute 14 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

The School District's contractually required contribution to STRS was \$1,980,506 for fiscal year 2018. Of this amount \$338,040 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, 2017, 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:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|--------------------|--------------------|----------------|
| Proportionate Share of the Net Pension Liability | \$7,620,902 | \$29,914,616 | \$37,535,518 |
| Proportion of the Net Pension Liability | | | |
| Prior Measurement Date | 0.1299496% | 0.12234095% | |
| Current Measurement Date | <u>0.1275512%</u> | <u>0.12592863%</u> | |
| Change in Proportionate Share | <u>-0.0023984%</u> | <u>0.00358768%</u> | |
| Pension Expense | (\$795,118) | (\$11,957,934) | (\$12,753,052) |

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|---|--------------------|---------------------|---------------------|
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | \$327,977 | \$1,155,162 | \$1,483,139 |
| Changes of assumptions | 394,083 | 6,542,655 | 6,936,738 |
| Difference between School District contributions and proportionate share of contributions | 0 | 1,115,193 | 1,115,193 |
| School District contributions subsequent to the measurement date | <u>551,957</u> | <u>1,980,506</u> | <u>2,532,463</u> |
| Total Deferred Outflows of Resources | <u>\$1,274,017</u> | <u>\$10,793,516</u> | <u>\$12,067,533</u> |
| Deferred Inflows of Resources | | | |
| Differences between expected and actual experience | \$0 | \$241,110 | \$241,110 |
| Net difference between projected and actual earnings on pension plan investments | \$36,175 | \$987,217 | \$1,023,392 |
| Difference between School District contributions and proportionate share of contributions | <u>351,212</u> | <u>274,992</u> | <u>626,204</u> |
| Total Deferred Inflows of Resources | <u>\$387,387</u> | <u>\$1,503,319</u> | <u>\$1,890,706</u> |

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

\$2,532,463 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, 2019. 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: | SERS | STRS | Total |
|-----------------------------|-------------|-------------|-------------|
| 2019 | \$107,145 | \$1,514,619 | \$1,621,764 |
| 2020 | \$320,288 | \$2,881,339 | \$3,201,627 |
| 2021 | \$84,899 | \$2,015,359 | \$2,100,258 |
| 2022 | (\$177,659) | \$898,374 | \$720,715 |
| Total | \$334,673 | \$7,309,691 | \$7,644,364 |

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, 2017, are presented below:

| | |
|--|--|
| Wage Inflation | 3.00 percent |
| Future Salary Increases, including inflation | 3.5 percent to 18.2 percent |
| COLA or Ad Hoc COLA | 2.5 percent |
| Investment Rate of Return | 7.50 percent net of investments expense, including inflation |
| Actuarial Cost Method | Entry Age Normal |

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

Prior to 2017, an assumption of 3 percent was used for COSA or AD Hoc COLA.

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disable members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

The most recent experience study was completed for the five-year period ended June 30, 2015.

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------|------------------------------|---|
| Cash | 1.00 % | 0.50 % |
| US Stocks | 22.50 | 4.75 |
| Non-US Stocks | 22.50 | 7.00 |
| Fixed Income | 19.00 | 1.50 |
| Private Equity | 10.00 | 8.00 |
| Real Assets | 15.00 | 5.00 |
| Multi-Asset Strategies | 10.00 | 3.00 |
| Total | 100.00 % | |

Discount Rate The total pension liability was calculated using the discount rate of 7.50 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 (7.50 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.

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

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 7.50 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 (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|------------------------|-------------------------------------|------------------------|
| School District's proportionate share of the net pension liability | \$10,575,832 | \$7,620,902 | \$5,145,546 |

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017, actuarial valuation, compared with July 1, 2016 are presented below.

| | July 1, 2017 | July 1, 2016 |
|-----------------------------------|---|---|
| Inflation | 2.50 percent | 2.75 percent |
| Projected salary increases | 12.50 percent at age 20 to 2.50 percent at age 65 | 12.25 percent at age 20 to 2.75 percent at age 70 |
| Investment Rate of Return | 7.45 percent, net of investment expenses, including inflation | 7.75 percent, net of investment expenses, including inflation |
| Cost-of-Living Adjustments (COLA) | 0.0 percent, effective July 1, 2017 | 2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date. |
| Payroll increases | 3.0 percent | |

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study, effective July 1, 2011 through June 30, 2016.

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return*</u> |
|----------------------|--------------------------|--|
| Domestic Equity | 28.00 % | 7.35 % |
| International Equity | 23.00 | 7.55 |
| Alternatives | 17.00 | 7.09 |
| Fixed Income | 21.00 | 3.00 |
| Real Estate | 10.00 | 6.00 |
| Liquidity Reserves | 1.00 | 2.25 |
| Total | 100.00 % | |

*10 year annualized geometric minimal returns, which include the real rate of return an inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS;' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. 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. 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, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

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 7.45 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 (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

| | 1% Decrease (6.45%) | Current Discount Rate (7.45%) | 1% Increase (8.45%) |
|--|------------------------|-------------------------------------|------------------------|
| School District's proportionate share of the net pension liability | \$42,881,584 | \$29,914,616 | \$18,991,889 |

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 11 – DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the School District’s proportionate share of each OPEB plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan’s fiduciary net position. The net OPEB 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 these estimates 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 OPEB are financed; however, the School District does receive the benefit of employees’ services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan’s unfunded benefits is presented as a long-term net OPEB liability on the accrual basis of accounting. Any liability for the contractually-required OPEB 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)

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 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS’ Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS’ health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS’ health care coverage.

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 11 – DEFINED BENEFIT OPEB PLANS (continued)

Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. 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 2018, the School District's surcharge obligation was \$65,607.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$90,718 for fiscal year 2018. Of this amount \$65,607 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 11 – DEFINED BENEFIT OPEB PLANS (continued)

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS 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. 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 premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability was based on the School District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

| | SERS | STRS | Total |
|---|-------------|---------------|---------------|
| Proportion of the Net OPEB Liability | | | |
| Current Measurement Date | 0.12926290% | 0.12592863% | |
| Proportionate Share of the Net | | | |
| OPEB Liability | \$3,469,077 | \$4,913,270 | \$8,382,347 |
| OPEB Expense | \$192,919 | (\$1,499,265) | (\$1,306,346) |

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | SERS | STRS | Total |
|---|-----------|-----------|-----------|
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | | \$283,624 | \$283,624 |
| School District contributions subsequent to the measurement date | 90,718 | | 90,718 |
| Total Deferred Outflows of Resources | \$90,718 | \$283,624 | \$374,342 |
| Deferred Inflows of Resources | | | |
| Changes of assumptions | \$329,197 | \$395,780 | \$724,977 |
| Net difference between projected and actual earnings on OPEB plan investments | 9,161 | 210,005 | 219,166 |
| Total Deferred Inflows of Resources | \$338,358 | \$605,785 | \$944,143 |

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 11 – DEFINED BENEFIT OPEB PLANS (continued)

\$90,718 reported as deferred outflows of resources related to OPEB resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| | SERS | STRS | Total |
|-----------------------------|-------------|-------------|-------------|
| Fiscal Year Ending June 30: | | | |
| 2019 | (\$121,565) | (\$71,193) | (\$192,758) |
| 2020 | (121,565) | (71,193) | (192,758) |
| 2021 | (92,939) | (71,193) | (164,132) |
| 2022 | (2,289) | (71,193) | (73,482) |
| 2023 | 0 | (18,692) | (18,692) |
| Thereafter | 0 | (18,697) | (18,697) |
| Total | (\$338,358) | (\$322,161) | (\$660,519) |

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each 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 terminations). 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 OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented below:

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 11 – DEFINED BENEFIT OPEB PLANS (continued)

| | |
|---|---|
| Wage Inflation | 3.00 percent |
| Future Salary Increases, including inflation | 3.50 percent to 18.20 percent |
| Investment Rate of Return | 7.50 percent net of investments expense, including inflation |
| Municipal Bond Index Rate: | |
| Measurement Date | 3.56 percent |
| Prior Measurement Date | 2.92 percent |
| Single Equivalent Interest Rate, net of plan investment expense, including price inflation | |
| Measurement Date | 3.63 percent |
| Prior Measurement Date | 2.98 percent |
| Medical Trend Assumption | |
| Medicare | 5.50 to 5.00 percent |
| Pre-Medicare | 7.50 to 5.00 percent |

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 11 – DEFINED BENEFIT OPEB PLANS (continued)

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|------------------------|----------------------|---|
| Cash | 1.00 % | 0.50 % |
| US Stocks | 22.50 | 4.75 |
| Non-US Stocks | 22.50 | 7.00 |
| Fixed Income | 19.00 | 1.50 |
| Private Equity | 10.00 | 8.00 |
| Real Assets | 15.00 | 5.00 |
| Multi-Asset Strategies | 10.00 | 3.00 |
| Total | <u>100.00 %</u> | |

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.63 percent. The discount rate used to measure total OPEB liability prior to June 30, 2017 was 2.98 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

| | 1% Decrease (2.63%) | Current Discount Rate (3.63%) | 1% Increase (4.63%) |
|--|------------------------|-------------------------------------|------------------------|
| School District's proportionate share of the net OPEB liability | \$4,189,352 | \$3,469,077 | \$2,898,435 |

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 11 – DEFINED BENEFIT OPEB PLANS (continued)

| | 1% Decrease (6.5 % decreasing to 4.0 %) | Current Trend Rate (7.5 % decreasing to 5.0 %) | 1% Increase (8.5 % decreasing to 6.0 %) |
|--|---|---|---|
| School District's proportionate share of the net OPEB liability | \$2,814,896 | \$3,469,077 | \$4,334,896 |

Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

| | |
|--------------------------------------|--|
| Inflation | 2.50 percent |
| Projected salary increases | 12.50 percent at age 20 to 2.50 percent at age 65 |
| Investment Rate of Return | 7.45 percent, net of investment expenses, including inflation |
| Payroll Increases | 3 percent |
| Cost-of-Living Adjustments (COLA) | 0.0 percent, effective July 1, 2017 |
| Blended Discount Rate of Return | 4.13 percent |
| Health Care Cost Trends | 6 to 11 percent initial, 4.5 percent ultimate |

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified.

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 11 – DEFINED BENEFIT OPEB PLANS (continued)

The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

STRS' investment consultant develops an estimate range 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:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Rate of Return *</u> |
|----------------------|------------------------------|--|
| Domestic Equity | 28.00 % | 7.35 % |
| International Equity | 23.00 | 7.55 |
| Alternatives | 17.00 | 7.09 |
| Fixed Income | 21.00 | 3.00 |
| Real Estate | 10.00 | 6.00 |
| Liquidity Reserves | 1.00 | 2.25 |
| Total | <u>100.00 %</u> | |

* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members.

The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection.

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 11 – DEFINED BENEFIT OPEB PLANS (continued)

The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

Sensitivity of the School District’s Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

| | 1% Decrease (3.13%) | Current Discount Rate (4.13%) | 1% Increase (5.13%) |
|--|------------------------|-------------------------------------|------------------------|
| School District's proportionate share of the net OPEB liability | \$6,595,987 | \$4,913,270 | \$3,583,375 |

| | 1% Decrease | Current Trend Rate | 1% Increase |
|--|-------------|-----------------------|-------------|
| School District's proportionate share of the net OPEB liability | \$3,413,530 | \$4,913,270 | \$6,887,105 |

NOTE 12 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Vacation leave must be used by each employee prior to the end of their contract year. Administrators may request to have up to 10 days paid. Unused vacation time, earned within a contract year, is paid to classified employees and administrators upon retirement. 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. Sick leave may be accumulated up to a maximum of 275 days for all personnel, except administrators. Upon retirement, payment is made for one-fourth of the total unused sick leave balance up to a maximum 62 days for all employees with ten or more years of current service with the School District. Administrators may accumulate up to a maximum of 307 days depending upon their position. Upon retirement, payment is made at 25.2% of the total unused sick leave balance up to a maximum of 77 days depending upon their position.

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 12 - OTHER EMPLOYEE BENEFITS (continued)

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance through Fort Dearborn, administered by CoreSource. The School District provides health insurance coverage through United Health Care of Ohio, Inc. Each employee share of the total core premium was 17 percent of the monthly premium, with the option of the employee paying for any plan buy-up. Dental insurance is provided through Delta Dental and vision benefits are provided through Vision Service Plan.

NOTE 13 - SIGNIFICANT CONTRACTUAL COMMITMENTS

As of June 30, 2018, the School District had contractual purchase commitments as follows:

| <u>Vendor</u> | <u>Amount</u> | <u>Expended</u> | <u>Balance</u> |
|------------------------|-------------------|------------------|-------------------|
| MVECA | \$ 86,855 | \$ 19,796 | \$ 67,059 |
| Clark Education Center | 25,000 | - | 25,000 |
| Gordon Food Service | 95,000 | - | 95,000 |
| Forward Edge | 69,694 | - | 69,694 |
| R D Holder Oil Co Inc. | 27,000 | - | 27,000 |
| Direct Energy | 42,000 | - | 42,000 |
| | <u>\$ 345,549</u> | <u>\$ 19,796</u> | <u>\$ 325,753</u> |

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Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 14 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2018 were as follows:

| | Restated Amount Outstanding 6/30/2017 | Additions | Deletions | Amount Outstanding 6/30/2018 | Amount Due in One Year |
|---|--|------------------|-----------------------|------------------------------------|------------------------------|
| Governmental Activities | | | | | |
| General Obligation Bonds 2004 | | | | | |
| Capital Appreciation Bonds | \$409,975 | \$0 | (\$150,615) | \$259,360 | \$136,499 |
| Interest Accretion on Capital Appreciation Bonds | 1,516,326 | 194,783 | (599,385) | 1,111,724 | 628,501 |
| Total - General Obligation Bonds 2004 | <u>1,926,301</u> | <u>194,783</u> | <u>(750,000)</u> | <u>1,371,084</u> | <u>765,000</u> |
| Refunding Bonds 2012 | | | | | |
| Serial Bonds | 6,115,000 | 0 | (85,000) | 6,030,000 | 85,000 |
| Term Bonds | 1,510,000 | 0 | 0 | 1,510,000 | 0 |
| Capital Appreciation Bonds | 354,878 | 0 | 0 | 354,878 | 0 |
| Interest Accretion on Capital Appreciation Bonds | 210,009 | 76,275 | 0 | 286,284 | 0 |
| Total - Refunding Bonds 2012 | <u>8,189,887</u> | <u>76,275</u> | <u>(85,000)</u> | <u>8,181,162</u> | <u>85,000</u> |
| Refunding Bonds 2013 | | | | | |
| Serial Bonds | 5,425,000 | 0 | 0 | 5,425,000 | 0 |
| Term Bonds | 340,000 | 0 | (55,000) | 285,000 | 55,000 |
| Total - Refunding Bonds 2013 | <u>5,765,000</u> | <u>0</u> | <u>(55,000)</u> | <u>5,710,000</u> | <u>55,000</u> |
| Total General Obligation Bonds | <u>15,881,188</u> | <u>271,058</u> | <u>(890,000)</u> | <u>15,262,246</u> | <u>905,000</u> |
| Unamortized Premium on Bonds | | | | | |
| Refunding Bonds 2012 | 759,619 | 0 | (50,641) | 708,978 | 0 |
| Refunding Bonds 2013 | 496,292 | 0 | (45,118) | 451,174 | 0 |
| Total Unamortized Premiums on Bonds | <u>1,255,911</u> | <u>0</u> | <u>(95,759)</u> | <u>1,160,152</u> | <u>0</u> |
| Net Pension Liability | | | | | |
| SERS | 9,511,112 | 0 | (1,890,210) | 7,620,902 | 0 |
| STRS | 40,951,204 | 0 | (11,036,588) | 29,914,616 | 0 |
| Total Net Pension Liability | <u>50,462,316</u> | <u>0</u> | <u>(12,926,798)</u> | <u>37,535,518</u> | <u>0</u> |
| Net OPEB Liability | | | | | |
| SERS | 3,684,471 | 0 | (215,394) | 3,469,077 | 0 |
| STRS | 6,734,696 | 0 | (1,821,426) | 4,913,270 | 0 |
| Total Net OPEB Liability | <u>10,419,167</u> | <u>0</u> | <u>(2,036,820)</u> | <u>8,382,347</u> | <u>0</u> |
| Compensated Absences | <u>1,979,682</u> | <u>172,873</u> | <u>(22,709)</u> | <u>2,129,846</u> | <u>27,007</u> |
| Total Governmental Activities | <u>\$79,998,264</u> | <u>\$443,931</u> | <u>(\$15,972,086)</u> | <u>\$64,470,109</u> | <u>\$932,007</u> |

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 14 - LONG-TERM OBLIGATIONS (continued)

General Obligation Bonds 2004

The School District issued general obligation bonds in 2004 for the construction and renovation of school buildings. The original amount of the bonds was \$20,614,975. Of the general obligation bonds, \$6,710,000 was serial bonds with interest rates ranging from 2% to 4.2% and mature December 31, 2016. The \$13,495,000 in term bonds has interest rates ranging from 4.625% to 4.75% and mature December 31, 2031. \$409,975 is capital appreciation bonds (maturity amount of \$750,000 on December 1, 2017, \$765,000 on December 1, 2018 and \$775,000 on December 1, 2019). A portion of these bonds was refunded during fiscal year 2013.

Refunding Bonds 2012

On December 27, 2012, the School District issued \$8,819,991 in bonds for refunding \$8,820,000 of the 2004 general obligation bonds with interest rates ranging from 4.2% to 4.75%. Of the refunding bonds issued, \$6,350,000 was serial bonds with interest rates ranging from 2-4% and mature December 31, 2031. The \$1,510,000 in term bonds has interest rates ranging from 2-3% and mature December 31, 2028. \$959,991 is capital appreciation bonds (maturity amount of \$115,000 on December 1, 2015, \$820,000 on December 1, 2016 and \$880,000 on December 1, 2020.)

Refunding Bonds 2013

On February 21, 2013, the School District issued \$6,044,997 in bonds for refunding \$6,045,000 of the 2004 general obligation bonds with interest rates ranging from 4.1% to 4.75%. Of the refunding bonds issued, \$5,615,000 was serial bonds with interest rates ranging from 1-3% and mature December 31, 2027. The \$340,000 in term bonds has interest rates ranging from 1.5-2% and mature December 31, 2022. \$89,997 is capital appreciation bonds (maturity amount of \$745,000 on December 1, 2015 and \$55,000 on December 1, 2016.)

Compensated absences will be paid from the general fund and the food service and latchkey funds.

The School District's overall legal debt margin was \$12,782,966 and the un-voted debt margin was \$281,843 at June 30, 2018.

The School District's debt service requirements at June 30, 2018, were as follows:

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 14 - LONG-TERM OBLIGATIONS (continued)

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|--------------------------------|---------------------|--------------------|---------------------|
| 2019 | \$276,499 | \$1,001,402 | \$1,277,901 |
| 2020 | 262,861 | 1,022,474 | 1,285,335 |
| 2021 | 409,878 | 893,700 | 1,303,578 |
| 2022 | 950,000 | 358,624 | 1,308,624 |
| 2023 | 985,000 | 339,274 | 1,324,274 |
| 2024-2028 | 5,475,000 | 1,347,592 | 6,822,592 |
| 2029-2032 | 5,505,000 | 431,175 | 5,936,175 |
| Total | 13,864,238 | 5,394,241 | \$19,258,479 |
| Accretion | 1,398,008 | (1,398,008) | |
| | \$15,262,246 | \$3,996,233 | |

NOTE 15 – FUND BALANCE

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 the resources in governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

| Fund Balance | General | Other Governmental Funds | Total Governmental Funds |
|----------------------------|----------------------|--------------------------------|--------------------------------|
| Nonspendable: | | | |
| Inventory | \$ 15,497 | \$ 20,447 | \$ 35,944 |
| Prepaid Items | 5,460 | - | 5,460 |
| Permanent Fund Principal | - | 2,000 | 2,000 |
| Unclaimed Checks | 38,407 | - | 38,407 |
| Total Nonspendable | 59,364 | 22,447 | 81,811 |
| Restricted for: | | | |
| Food Service | - | 1,217,375 | 1,217,375 |
| Classroom Maintenance | - | 1,301,690 | 1,301,690 |
| Athletics | - | 73,426 | 73,426 |
| Permanent Fund | - | 429 | 429 |
| Capital Improvements | - | 1,624,805 | 1,624,805 |
| Debt Service | - | 1,281,352 | 1,281,352 |
| State and Federal Grants | - | 67,944 | 67,944 |
| Total Restricted | - | 5,567,021 | 5,567,021 |
| Assigned for: | | | |
| Latchkey | 153,333 | - | 153,333 |
| FY 19 Appropriations | 1,090,747 | - | 1,090,747 |
| Unpaid Obligations | 555,466 | - | 555,466 |
| Public School Support | 122,783 | - | 122,783 |
| Donnelsville Parent Center | 74 | - | 74 |
| Total Assigned | 1,922,403 | - | 1,922,403 |
| Unassigned | 8,532,394 | (83,647) | 8,448,747 |
| Total Fund Balance | \$ 10,514,161 | \$ 5,505,821 | \$ 16,019,982 |

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organizations

Miami Valley Educational Computer Association - The School District is a participant in the Miami Valley Educational Computer Association (MVECA) which is a computer consortium. MVECA is an association of public school districts within the boundaries of Clark, Clinton, Greene, Highland, Fayette, and Madison Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of MVECA consists of seven representatives from the member districts. Not less than two members are superintendents of the member districts and not less than two are treasurers of the member districts.

The School District paid MVECA \$99,745 for services provided during the fiscal year. Financial information can be obtained from Thor Sage, Executive Director, at MVECA at 330 East Enon Road, Yellow Springs, Ohio 45387.

Southwestern Ohio Educational Purchasing Council -The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 180 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group.

During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. During fiscal year 2018, the School District paid \$120,991 to the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

Clark County Family and Children First Council - The Clark County Family and Children First Council (FCFC) is a voluntary association established with the purpose to coordinate and integrate those services within Clark County which are available for families and to establish a comprehensive, coordinated, multi-disciplinary, interagency system for the delivery of such services in order to more effectively meet the needs of families and children.

The Board of Trustees is comprised of representatives of each of the members of the Council, and representatives of those additional entities required to be represented on the Council pursuant to Section 121.37 of the Ohio Revised Code. The school districts in Clark County must appoint a superintendent of one of the schools to represent them on the eighteen member Board. Currently, the superintendent of the Clark County Educational Service Center serves as this representative. All members are obligated to pay all dues as established by the Council to aid the financing of the operations and programs of the Council. The Tecumseh Local School District did not have any payments to the FCFC during fiscal year 2018.

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS (continued)

Any member withdrawing from the Council must give one hundred eighty days written notice to the Council after formal action of the member's governing board. To obtain financial information, write to the Clark County Family and Children First Council, Leslie Crew, who serves as Executive Director, at 1345 Lagonda Avenue, Springfield, Ohio 45503.

Springfield-Clark Career Technology Center - The Springfield-Clark Career Technology Center (CTC) is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one or two representatives from each of the eight participating school districts' and educational service center's elected boards, which possesses its own budgeting and taxing authority. One member is appointed from the following: Tecumseh Local School District, Greenon Local School District, Northeastern Local School District, Northwestern Local School District, Southeastern Local School District, Tecumseh Local School District, and the Clark County Educational Service Center. Two members are appointed from the Springfield City School District.

The School District did not make any financial contributions to the CTC during fiscal year 2018. To obtain financial information, write to the Springfield-Clark Career Technology Center, Brad McKee, who serves as Treasurer, 1901 Selma Road, Springfield, Ohio 45505-4239.

Tecumseh Education Foundation – The Tecumseh Education Foundation (TEF) is a non-profit community organization of business, civic, industry and educational interests whose purpose is to secure and distribute contributions to assist the School District in enabling students to achieve their individual potential. The Board of Trustees is comprised of eleven representatives who are nominated and elected by a majority vote by the present trustees. One member of the Tecumseh Local School District Board is designated annually by the Tecumseh Local School District Board to serve as one of the eleven trustees.

Each of the elected trustees serves a three year term, with one-third of the trustees being elected every year. The Superintendent of the School District will serve in an ex officio capacity on a continuing basis. Officers of the TEF are elected annually by the Board of Trustees. The officers of the foundation shall consist of a President, a Vice-President, a Secretary, a Treasurer and other offices as the Board of Trustees may appoint. The President and Vice-President of the Board of Trustees shall be members of the Board of Trustees. The Secretary and Treasurer need not be members of the Board of Trustees.

The School District is not able to impose its will on the TEF and no financial benefit/burden relationship exists. The TEF is responsible for approving its own budgets, appointing personnel and accounting and finance related activities. The School District did not contribute any money to the TEF during fiscal year 2018. During fiscal year 2008, the TEF received an endowment for \$2.4 million that is to be used to provide scholarships to Tecumseh LSD graduates. The money was turned over to the Springfield Foundation to administer the program. To obtain financial information write to the Tecumseh Educational Foundation, Kevin Harmon, who serves as President, at P.O. Box 305, New Carlisle, Ohio 45344.

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS (continued)

B. Insurance Purchasing Pool

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP). The GRP's business and affairs are conducted by a eleven member committee consisting of the Chairperson, a representative from the Montgomery County Educational Service Center, and eight other members elected by a majority vote of all member school districts. The Chief administrator of GRP serves as the coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan - The School District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various EPC representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each fiscal year, the participating school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

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 fiscal year must be held in cash at fiscal year-end. These amounts must be carried forward and used for the same purposes in future years.

The following cash basis information identifies the changes in the fund balance reserves for capital improvements during fiscal year 2018.

| | Capital Acquisitions |
|---|-------------------------|
| Set-aside Reserve Balance as of June 30, 2017 | \$0 |
| Current Year Set-aside Requirement | 553,432 |
| Offsets - Capital Maintenance Levy | (232,042) |
| Prior Year Offset from Bond Proceeds | (174,133) |
| Qualifying Disbursements | (147,257) |
| Totals | \$0 |
| Set-aside Balances Carried Forward to Future Fiscal Years | \$0 |
| Set-aside Reserve Balances as of June 30, 2018 | \$0 |

Although the School District had qualifying disbursements and offsets that reduced the capital acquisitions set-aside below zero, the negative amount can only be carried forward to the extent of the expenditures from bond proceeds.

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 17 - SET-ASIDE CALCULATIONS (Continued)

The District had current year offsets that reduced the capital improvements set-aside amount to zero. During prior years, District issued capital related school improvement bonds. These proceeds may be used to reduce capital acquisition below zero for future years. The amount presented for Prior Year Offset from Bond Proceeds is limited to an amount needed to reduce the reserve for capital improvement to zero. The District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods, which was \$18,174,520 at June 30, 2018.

In accordance with legislative requirements, the School District continues to maintain funds in the amount \$80,032 that were related to workers' compensation rebates in the budget stabilization reserve, which has been combined with the general fund. The School District's budget stabilization account is comprised entirely of workers' compensation rebate funds.

NOTE 18 – INTERFUND TRANSACTIONS

At June 30, 2018, the School District had a short-term interfund loan with the General Fund in the amount of \$21,255. The following funds owed the General Fund:

| <u>Fund</u> | <u>Amount</u> |
|------------------------|-----------------|
| High Schools That Work | \$556 |
| Secondary Transition | 1,260 |
| Race to the Top | 2,478 |
| IDEA Part B | 2,505 |
| Title IV-A | 3,025 |
| Title 1 | 5,086 |
| Title IIA | 6,345 |
| Total | <u>\$21,255</u> |

NOTE 19 - CONTINGENCIES

Grants

The School District receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2018.

Litigation

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

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 19 – CONTINGENCIES (Continued)

Foundation Funding

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. 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. The School District has recognized a receivable in the amount of \$11,712 to account for adjustments to date.

NOTE 20 – TAX ABATEMENTS

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 77, Tax Abatement Disclosures, the County is required to disclose certain information about tax abatements as defined in the Statement. For purposes of GASB Statement 77, a tax abatement is a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the local government or its citizens.

Enterprise Zone Program

The Ohio Enterprise Zone Program is an economic development tool administered by municipal and county governments that provides real property tax exemptions to businesses making investments in Ohio. Enterprise zones are designated areas of land in which businesses can receive tax incentives in the form of tax exemptions on eligible new investment. The Enterprise Zone Program can provide tax exemptions for a portion of the value of new real property investment when the investment is made in conjunction with a project that includes job creation. Existing land values and existing building values are not eligible. The zone's geographic area is identified by the local communities involved in the creation of the zone. Once a zone is defined, the local legislative authority participating in the creation must petition the Director of ODSA. The Director must then certify the area for it to become an active Enterprise Zone. Local communities may offer tax incentives for non-retail projects that are establishing or expanding operations in the State of Ohio. Tax incentives are negotiated at the local level, and an enterprise zone agreement must be in place before the project begins.

Businesses located in an Enterprise Zone may negotiate exemptions on new property tax from investment for up to seventy-five percent for ten years. For commercial projects, job retention and/or creation is also required. Taxes are abated as the increase in assessed value resulting from the investment is not included (or included at a lesser amount) in the assessed value used for property tax computation for the taxpayer. Agreements must be in place before the project begins. Pursuant to the terms of such agreements, if the actual number of employee positions created or retained by the business in any three-year period during which the agreement is in effect is not equal to or greater than seventy-five percent of the number of employee positions estimated to be created or retained under the agreement, the business shall repay the amount of taxes on property that would have been payable had the property not been exempted. In addition, the local governments may terminate or modify the exemptions from taxation granted under the agreement if the terms of the agreement are not met.

Tecumseh Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 20 – TAX ABATEMENTS (Continued)

Tecumseh Local School District falls within an enterprise zone created by Clark County. In 2013, Blackhorse Energy LLC entered into an agreement with Clark County for a 10 year, 60% tax abatement. Taxes foregone by the School District was \$12,635 for 2017.

NOTE 21 – CHANGES IN ACCOUNTING PRINCIPLE

For fiscal year 2018, the School District has implemented Governmental Accounting Standard Board Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits other than Pensions” and the related guidance from (GASB) Implementation Guide No. 2017-3, “Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Items Related to OPEB Plan Reporting”. This statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). The implementation of this statement decreased net position \$10,349,212, from \$15,393,687 to \$5,044,475. Additional note disclosures can be found in Note 11.

Other than employer contributions subsequent to the measurement date of \$69,955, the School District made no restatement for deferred inflows/outflows as the information needed to generate these restatements was not available.

For fiscal year 2018, the School District has implemented Governmental Accounting Standard Board Statement No. 82, “Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and no. 73”. This statement addresses issues regarding (1) the presentation of payroll-related measures in required supplemental information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of this statement had no effect on the financial statements of the School District.

For fiscal year 2018, the School District has implemented GASB Statement No. 85, “Omnibus 2017”, which addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application and OPEB. The implementation of GASB 85 did not have an effect on the financial statements of the School District.

For fiscal year 2018, the School District has implemented Governmental Accounting Standard Board Statement No. 86, “Certain Debt Extinguishment Issues”. This statement improves the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. The implementation of this statement had no effect on the financial statements of the School District.

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Tecumseh Local School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
Last Five Fiscal Years (1)

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|-------------|-------------|-------------|-------------|-------------|
| School District's Proportion of the Net Pension Liability | 0.1275512% | 0.1299496% | 0.1378480% | 0.1391220% | 0.1391220% |
| School District's Proportionate Share of the Net Pension Liability | \$7,620,902 | \$9,511,112 | \$7,865,723 | \$7,040,888 | \$8,273,139 |
| School District's Covered Employee Payroll | \$4,276,450 | \$4,035,750 | \$4,408,134 | \$4,083,442 | \$3,977,399 |
| School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 178.21% | 235.67% | 178.44% | 172.43% | 208.00% |
| Plan Fiduciary Net Position as a Percentage Of the Total Net Pension Liability | 69.50% | 62.98% | 69.16% | 71.70% | 65.62% |

(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.

See accompanying notes to the required supplementary information

Tecumseh Local School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
Last Five Fiscal Years (1)

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|--------------|--------------|--------------|--------------|--------------|
| School District's Proportion of the Net Pension Liability | 0.12592863% | 0.12234095% | 0.12367450% | 0.12182569% | 0.12182569% |
| School District's Proportionate Share of the Net Pension Liability | \$29,914,616 | \$40,951,204 | \$34,180,015 | \$29,632,225 | \$35,297,711 |
| School District's Covered Employee Payroll | \$13,035,607 | \$12,814,350 | \$12,903,364 | \$13,404,700 | \$13,448,392 |
| School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 229.48% | 319.57% | 264.89% | 221.06% | 262.47% |
| Plan Fiduciary Net Position as a Percentage Of the Total Net Pension Liability | 75.30% | 66.80% | 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.

See accompanying notes to the required supplementary information

Tecumseh Local School District
Required Supplementary Information
Schedule of School District's Contributions - Pension
School Employees Retirement System of Ohio
Last Ten Fiscal Years

| | 2018 | 2017 | 2016 | 2015 |
|---|------------------|------------------|------------------|------------------|
| Contractually Required Contributions | \$551,957 | \$598,703 | \$565,005 | \$580,992 |
| Contributions in Relation to the Contractually Required Contribution | <u>(551,957)</u> | <u>(598,703)</u> | <u>(565,005)</u> | <u>(580,992)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| School District Covered-Employee Payroll | \$4,088,570 | \$4,276,450 | \$4,035,750 | \$4,408,134 |
| Contributions as a Percentage of Covered-Employee Payroll | 13.50% | 14.00% | 14.00% | 13.18% |

See accompanying notes to the required supplementary information

| 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$565,965 | \$550,472 | \$532,682 | \$528,840 | \$363,137 | \$398,173 |
| <u>(565,965)</u> | <u>(550,472)</u> | <u>(532,682)</u> | <u>(528,840)</u> | <u>(363,137)</u> | <u>(398,173)</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$4,083,442 | \$3,977,399 | \$3,960,461 | \$4,207,160 | \$2,681,957 | \$4,046,474 |
| 13.86% | 13.84% | 13.45% | 12.57% | 13.54% | 9.84% |

Tecumseh Local School District
Required Supplementary Information
Schedule of School District's Contributions - Pension
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

| | 2018 | 2017 | 2016 | 2015 |
|---|--------------------|--------------------|--------------------|--------------------|
| Contractually Required Contributions | \$1,980,506 | \$1,824,985 | \$1,794,009 | \$1,806,471 |
| Contributions in Relation to the Contractually Required Contribution | <u>(1,980,506)</u> | <u>(1,824,985)</u> | <u>(1,794,009)</u> | <u>(1,806,471)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| School District Covered-Employee Payroll | \$14,146,471 | \$13,035,607 | \$12,814,350 | \$12,903,364 |
| Contributions as a Percentage of Covered-Employee Payroll | 14.00% | 14.00% | 14.00% | 14.00% |

See accompanying notes to the required supplementary information

| 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| \$1,742,611 | \$1,748,291 | \$1,737,882 | \$1,859,640 | \$1,889,497 | \$1,815,352 |
| <u>(1,742,611)</u> | <u>(1,748,291)</u> | <u>(1,737,882)</u> | <u>(1,859,640)</u> | <u>(1,889,497)</u> | <u>(1,815,352)</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$13,404,700 | \$13,448,392 | \$13,368,823 | \$14,304,923 | \$14,534,592 | \$13,964,246 |
| 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |

Tecumseh Local School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net OPEB Liability
School Employees Retirement System of Ohio
Last Two Fiscal Years (1)

| | 2018 | 2017 |
|---|-------------|-------------|
| School District's Proportion of the Net OPEB Liability | 0.1292629% | 0.1292629% |
| School District's Proportionate Share of the Net OPEB Liability | \$3,469,077 | \$3,684,471 |
| School District's Covered Employee Payroll | \$4,276,450 | \$4,035,750 |
| School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll | 81.12% | 91.30% |
| Plan Fiduciary Net Position as a Percentage Of the Total Net OPEB Liability | 12.46% | 11.49% |

(1) Information Prior to 2017 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.

See accompanying notes to the required supplementary information

Tecumseh Local School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net OPEB Liability
State Teachers Retirement System of Ohio
Last Two Fiscal Years (1)

| | 2018 | 2017 |
|---|--------------|--------------|
| School District's Proportion of the Net OPEB Liability | 0.12592863% | 0.12592863% |
| School District's Proportionate Share of the Net OPEB Liability | \$4,913,270 | \$6,734,696 |
| School District's Covered Employee Payroll | \$13,035,607 | \$12,814,350 |
| School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll | 37.69% | 52.56% |
| Plan Fiduciary Net Position as a Percentage Of the Total Net OPEB Liability | 47.10% | 37.30% |

(1) Information Prior to 2017 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.

See accompanying notes to the required supplementary information

Tecumseh Local School District
Required Supplementary Information
Schedule of School District's Contributions - OPEB
School Employees Retirement System of Ohio
Last Ten Fiscal Years

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-----------------|-----------------|-----------------|------------------|
| Contractually Required Contributions (1) | \$90,718 | \$69,955 | \$66,443 | \$105,686 |
| Contributions in Relation to the Contractually Required Contribution | <u>(90,718)</u> | <u>(69,955)</u> | <u>(66,443)</u> | <u>(105,686)</u> |
| Contribution Deficiency (Excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| School District Covered-Employee Payroll | \$4,088,570 | \$4,276,450 | \$4,035,750 | \$4,408,134 |
| Contributions as a Percentage of Covered-Employee Payroll | 2.22% | 1.64% | 1.65% | 2.40% |

(1) Includes Surcharge

See accompanying notes to the required supplementary information

| <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|-----------------|-----------------|-----------------|------------------|-----------------|------------------|
| \$77,138 | \$67,885 | \$80,036 | \$129,261 | \$77,304 | \$267,361 |
| <u>(77,138)</u> | <u>(67,885)</u> | <u>(80,036)</u> | <u>(129,261)</u> | <u>(77,304)</u> | <u>(267,361)</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$4,083,442 | \$3,977,399 | \$3,960,461 | \$4,207,160 | \$2,681,957 | \$4,046,474 |
| 1.89% | 1.71% | 2.02% | 3.07% | 2.88% | 6.61% |

Tecumseh Local School District
Required Supplementary Information
Schedule of School District's Contributions - OPEB
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

| | 2018 | 2017 | 2016 | 2015 |
|---|--------------|--------------|--------------|--------------|
| Contractually Required Contributions | \$0 | \$0 | \$0 | \$0 |
| Contributions in Relation to the Contractually Required Contribution | - | - | - | - |
| Contribution Deficiency (Excess) | \$0 | \$0 | \$0 | \$0 |
| School District Covered-Employee Payroll | \$14,146,471 | \$13,035,607 | \$12,814,350 | \$12,903,364 |
| Contributions as a Percentage of Covered-Employee Payroll | 0.00% | 0.00% | 0.00% | 0.00% |

See accompanying notes to the required supplementary information

| <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$134,047 | \$134,484 | \$133,683 | \$143,049 | \$145,346 | \$139,642 |
| <u>(134,047)</u> | <u>(134,484)</u> | <u>(133,683)</u> | <u>(143,049)</u> | <u>(145,346)</u> | <u>(139,642)</u> |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| \$13,404,700 | \$13,448,392 | \$13,368,823 | \$14,304,923 | \$14,534,592 | \$13,964,246 |
| 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% |

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Tecumseh Local School District
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

NET PENSION LIABILITY

School Employees Retirement System

Changes of Benefit Terms - The cost-of-living adjustment was changed from a fixed 3% to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.5% with a floor of 0% beginning January 1, 2018. In addition, with the authority granted the Board under HP 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

State Teachers Retirement System

Changes of Benefit Terms - Effective July 1, 2017, the COLA was reduced to zero.

Changes in Assumptions - The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75% to 7.45%, the inflation assumption was lowered from 2.75% to 2.5%, the payroll growth assumption was lowered to 3.00%, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation. The health and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

NET OPEB LIABILITY

School Employees Retirement System

Changes in Assumptions Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:

| | |
|------------------|--------------|
| Fiscal year 2018 | 3.56 percent |
| Fiscal year 2017 | 2.92 percent |

Single Equivalent Interest Rate, net of plan investment expense, including price inflation

| | |
|------------------|--------------|
| Fiscal year 2018 | 3.63 percent |
| Fiscal year 2017 | 2.98 percent |

Tecumseh Local School District
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

State Teachers Retirement System

Changes in Assumptions – For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Changes of Benefit Terms - Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

**TECUMSEH LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

| FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title | Federal CFDA Number | Pass Through Entity Identifying Number | Receipts | Non-Cash Receipts | Expenditures | Non-Cash Expenditures |
|--|------------------------------------|---|---------------------------|------------------------------|---------------------------|----------------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | | | | |
| <i>Passed Through Ohio Department of Education</i> | | | | | | |
| Child Nutrition Cluster: | | | | | | |
| School Breakfast Program | 10.553 | N/A | \$ 297,536 | | \$ 297,536 | |
| National School Lunch Program: | | | | | | |
| Cash Assistance | 10.555 | N/A | 719,448 | | 719,448 | |
| Non-Cash Assistance (Food Distribution) | 10.555 | | | \$ 114,198 | | \$ 106,288 |
| Total National School Lunch Program | | | <u>719,448</u> | <u>114,198</u> | <u>719,448</u> | <u>106,288</u> |
| Total Child Nutrition Cluster | | | <u>1,016,984</u> | <u>114,198</u> | <u>1,016,984</u> | <u>106,288</u> |
| Total U.S. Department of Agriculture | | | <u>1,016,984</u> | <u>114,198</u> | <u>1,016,984</u> | <u>106,288</u> |
| U.S. DEPARTMENT OF EDUCATION | | | | | | |
| <i>Passed Through Ohio Department of Education</i> | | | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | N/A | 691,835 | | 697,417 | |
| Migrant Education State Grant Program | 84.011 | N/A | 180,352 | | 114,816 | |
| Special Education Cluster (IDEA): | | | | | | |
| Special Education Grants to States | 84.027 | N/A | 616,446 | | 610,739 | |
| Special Education Preschool Grants | 84.173 | N/A | 26,027 | | 26,027 | |
| Total Special Education Cluster (IDEA) | | | <u>642,473</u> | | <u>636,766</u> | |
| English Language Acquisition State Grants | 84.365 | N/A | 30,569 | | 35,627 | |
| Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants) | 84.367 | N/A | 110,931 | | 105,474 | |
| Student Support and Academic Enrichment Program | 84.424 | N/A | 6,805 | | 7,330 | |
| Total U.S. Department of Education | | | <u>1,662,965</u> | | <u>1,597,430</u> | |
| Total Receipts and Expenditures of Federal Awards | | | <u>\$2,679,949</u> | <u>\$114,198</u> | <u>\$2,614,414</u> | <u>\$106,288</u> |

Note - There were no amounts passed through to subrecipients.

The accompanying notes are an integral part of this schedule.

**TECUMSEH LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) includes the federal award activity of Tecumseh Local School District (the District's) under programs of the federal government for the fiscal year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Receipts and expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C – CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE D – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

OHIO AUDITOR OF STATE KEITH FABER



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

Tecumseh Local School District
Clark County
9760 West National Road
New Carlisle, Ohio 45344

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Tecumseh Local School District, Clark County, (the District) as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 22, 2019, wherein we noted the District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Internal Control Over Financial Reporting

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

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

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

One First National Plaza, 130 W. Second St., Suite 2040, Dayton, Ohio 45402
Phone: 937-285-6677 or 800-443-9274
www.ohioauditor.gov

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the 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 report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

February 22, 2019



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Tecumseh Local School District
Clark County
9760 West National Road
New Carlisle, Ohio 45344

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Tecumseh Local School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Tecumseh Local School District's major federal program for the fiscal year ended June 30, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

The District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for the District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the Tecumseh Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the fiscal year ended June 30, 2018.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on the major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

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

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

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

February 22, 2019

**TECUMSEH LOCAL SCHOOL DISTRICT
CLARK COUNTY**

**SCHEDULE OF FINDINGS
2 C.F.R. § 200.515
JUNE 30, 2018**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|--|--|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unmodified |
| <i>(d)(1)(ii)</i> | Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iv)</i> | Were there any material weaknesses in internal control reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any significant deficiencies in internal control reported for major federal programs? | No |
| <i>(d)(1)(v)</i> | Type of Major Programs' Compliance Opinion | Unmodified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under 2 C.F.R. § 200.516(a)? | No |
| <i>(d)(1)(vii)</i> | Major Programs (list): | Special Education Cluster (IDEA) |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A/B Programs | Type A: > \$ 750,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee under 2 C.F.R. § 200.520? | Yes |

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

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OHIO AUDITOR OF STATE KEITH FABER



TECUMSEH LOCAL SCHOOL DISTRICT

CLARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 12, 2019**