



Certified Public Accountants, A.C.

**CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
CLERMONT COUNTY
Single Audit
For the Year Ended June 30, 2019**

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OHIO AUDITOR OF STATE
KEITH FABER



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Board of Education
Clermont Northeastern Local School District
2792 US Route 50
Batavia, Ohio 45103

We have reviewed the *Independent Auditor's Report* of the Clermont Northeastern Local School District, Clermont County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period July 1, 2018 through June 30, 2019. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

March 16, 2020

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**CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
CLERMONT COUNTY, OHIO**

TABLE OF CONTENTS

| TITLE | PAGE |
|---|-------------|
| Independent Auditor's Report..... | 1 |
| Management's Discussion and Analysis | 3 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Position | 12 |
| Statement of Activities | 13 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds | 14 |
| Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities | 15 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds | 16 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities..... | 17 |
| Statement of Fiduciary Net Position – Fiduciary Funds..... | 18 |
| Statement of Changes in Fiduciary Net Position – Fiduciary Fund | 19 |
| Notes to the Basic Financial Statements..... | 20 |
| Required Supplementary Information: | |
| Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Non-GAAP Budgetary Basis) – General Fund | 60 |
| Schedule of School District's Proportionate Share of the Net Pension Liability School Employees Retirement System of Ohio | 61 |
| Schedule of School District's Proportionate Share of the Net Pension Liability State Teachers Retirement System of Ohio | 62 |
| Schedule of School District's Pension Contributions School Employees Retirement System of Ohio..... | 63 |
| Schedule of School District's Pension Contributions State Teachers Retirement System of Ohio | 64 |
| Schedule of School District's Proportionate Share of the Net OPEB Liability School Employees Retirement System of Ohio..... | 65 |

**CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
CLERMONT COUNTY, OHIO**

TABLE OF CONTENTS (Continued)

| TITLE | PAGE |
|---|-------------|
| Schedule of School District's Proportionate Share of the Net OPEB Liability (Asset) State Teachers Retirement System of Ohio | 66 |
| Schedule of School District's OPEB Contributions School Employees Retirement System of Ohio | 67 |
| Schedule of School District's OPEB Contributions State Teachers Retirement System of Ohio | 68 |
| Notes to Required Supplementary Information..... | 69 |
| Schedule of Expenditures of Federal Awards | 70 |
| Notes to the Schedule of Expenditures of Federal Awards..... | 71 |
| Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 72 |
| 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 | 74 |
| Schedule of Audit Findings – 2 CFR § 200.515 | 76 |

INDEPENDENT AUDITOR'S REPORT

January 31, 2020

Clermont Northeastern Local School District
Clermont County
2792 US50
Batavia, OH 45103

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 **Clermont Northeastern Local School District**, Clermont County, Ohio (the School District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School 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.

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

Tax - Accounting - Audit - Review - Compilation - Agreed Upon Procedure - Consultation - Bookkeeping - Payroll - Litigation Support - Financial Investigations
Members: American Institute of Certified Public Accountants
• Ohio Society of CPAs • West Virginia Society of CPAs • Association of Certified Fraud Examiners • Association of Certified Anti-Money Laundering Specialists •

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of the Clermont Northeastern Local School District, Clermont County, Ohio, as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, required budgetary comparison for the General Fund, and schedules of net pension and OPEB liabilities and pension and OPEB 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 School District's basic financial statements taken as a whole.

The Schedule of 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 the schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule 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 schedule 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 January 31, 2020, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
YEAR ENDED JUNE 30, 2019**

This discussion and analysis provides key information from management highlighting the financial performance of the Clermont Northeastern Local School District for the year ended June 30, 2019. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the School District's financial statements.

Financial Highlights

Major financial highlights for fiscal year 2019 are listed below:

- ✓ The School District's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at year-end by \$4,019,420. Of this amount, \$5,669,403 is invested in capital assets, net of related debt. The School District's deficit ending net position is attributable to its recognition of its proportionate share of the State-wide pension plans' net pension and other postemployment benefits liabilities of \$20,322,934.
- ✓ In total, net position increased by \$1,389,740.
- ✓ The School District had \$20,369,888 in expenses related to governmental activities; only \$2,925,613 of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$18,834,015, made up primarily of property and income taxes and State Foundation payments provided the majority of funding for these programs.
- ✓ The General Fund balance increased by \$300,386 from \$6,052,480 at June 30, 2018 to \$6,352,866 at June 30, 2019.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the School District's finances in a manner similar to a private-sector business. The statement of net position presents information on all of the School District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between these reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating. The statement of activities presents information showing how the School District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g. uncollected taxes and earned but unused vacation leave).

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2019
Unaudited

The governmental activities of the School District include instruction, support services (administration, operation and maintenance of plant), and non-instructional services including extracurricular activities and food services. The School District has no business-type activities.

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

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

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

The School District accounts for its activities using many individual funds. The most significant funds are reported in separate columns in the governmental fund financial statements. These statements provide detailed information about the individual major funds – unlike the government-wide financial statements, which report on the School District as a whole.

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

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

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

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2019
Unaudited

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A. Net position at year-end

The following table presents a condensed summary of the School District's overall financial position at June 30, 2019 and June 30, 2018:

| | FY2019 | <i>Restated</i> FY2018 |
|----------------------------------|-----------------------|----------------------------------|
| Current and other assets | \$ 17,254,853 | \$ 19,302,509 |
| Capital assets | <u>9,887,265</u> | <u>8,936,152</u> |
| Total assets | <u>27,142,118</u> | <u>28,238,661</u> |
| Deferred outflows of resources | <u>5,544,891</u> | <u>6,342,544</u> |
| Long-term liabilities: | | |
| Net pension liability | 18,209,340 | 19,076,269 |
| Net OPEB liability | 2,113,594 | 4,463,141 |
| Other long-term liabilities | 6,265,862 | 6,598,303 |
| Other liabilities | <u>1,664,053</u> | <u>2,626,773</u> |
| Total liabilities | <u>28,252,849</u> | <u>32,764,486</u> |
| Deferred inflows of resources | <u>8,453,580</u> | <u>7,225,879</u> |
| Net position: | | |
| Net investment in capital assets | 5,669,403 | 6,293,661 |
| Restricted: | | |
| Other purposes | 511,588 | 433,758 |
| Capital projects | 600,057 | 560,770 |
| Unrestricted (deficit) | <u>(10,800,468)</u> | <u>(12,697,349)</u> |
| Total net position | <u>\$ (4,019,420)</u> | <u>\$ (5,409,160)</u> |

The net pension liability is reported pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27*. The net other postemployment benefits (OPEB) asset and liability are reported pursuant to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. 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 net OPEB liability to the reported net position and subtracting the net OPEB asset and deferred outflows related to pension and OPEB.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2019
Unaudited

Governmental Accounting Standards Board (GASB) standards are national and apply to all government financial reports prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Prior accounting for pensions (GASB Statement No. 27) and OPEB (GASB Statement No. 45) focused on a funding approach. This approach limited pension and OPEB 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 Statement Nos. 68 and 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio statewide pension and OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

As required by GASB Statement Nos. 68 and 75, the required 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 and 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 health care to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement systems are responsible for the administration of the pension and OPEB plans.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2019
Unaudited

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 or net OPEB liabilities. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 payments, State statute does not assign/identify the responsible part for the unfunded portion. Due to the unique nature of how the net pension and net OPEB liabilities are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB Statement Nos. 68 and 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.

The unrestricted net position (deficit) at June 30, 2019 was (\$10,800,468). However, if the components of recording the net pension and OPEB liabilities and net OPEB asset are removed from the Statement of Net Position, the School District's unrestricted net position would be a positive \$5,983,928. We feel this is important to mention as the management of the School District has no control over the management of the State-wide retirement plans or the benefits offered; both of which control the net pension and OPEB liabilities that significantly impact the School District's financial statements.

Total assets decreased from the prior year by about \$1.1 million. Current and other assets decreased due to using proceeds from the \$6 million lease-purchase agreement issued last fiscal year for various capital improvements. The decrease was partially offset by increases in capital assets, due to capitalizing completed improvements, and recognition of a \$1 million net OPEB asset.

Total liabilities decreased from the prior year by approximately \$4.5 million. Approximately \$3.2 million of the decrease occurred in the School District's share of the net pension and OPEB liabilities, with the state-wide retirement systems realizing better than projected investment earnings and changes in actuarial assumptions, which also led to the increase in deferred inflows of resources and created the net OPEB asset for the State Teachers Retirement System (STRS). Other liabilities decreased due to completion of several capital improvements that were in progress at the end of the last fiscal year and making the first principal payment on the lease-purchase agreement.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2019
Unaudited

B. Governmental Activities

The following table presents a condensed summary of the School District's governmental activities during fiscal year 2019 and 2018 and the resulting change in net position:

| | <u>FY2019</u> | <u>FY2018</u> |
|--|------------------------------|------------------------------|
| Revenues: | | |
| Program revenues: | | |
| Charges for services and sales | \$ 1,574,570 | \$ 1,723,883 |
| Operating grants and contributions | <u>1,351,043</u> | <u>1,278,963</u> |
| Total program revenues | <u>2,925,613</u> | <u>3,002,846</u> |
| General revenues: | | |
| Property taxes | 7,330,240 | 8,270,902 |
| Income taxes | 3,702,402 | 3,505,200 |
| Grants and entitlements | 7,255,251 | 7,049,792 |
| Investment earnings | 206,664 | 102,907 |
| Miscellaneous | <u>339,458</u> | <u>297,414</u> |
| Total general revenues | <u>18,834,015</u> | <u>19,226,215</u> |
| Total revenues | <u>21,759,628</u> | <u>22,229,061</u> |
| Expenses: | | |
| Instruction | 11,007,366 | 6,368,987 |
| Support services | 7,623,734 | 5,333,484 |
| Non-instructional services | 657,313 | 463,848 |
| Interest and fiscal charges | 230,996 | 46,887 |
| Food services | <u>850,479</u> | <u>716,599</u> |
| Total expenses | <u>20,369,888</u> | <u>12,929,805</u> |
| Change in net position | 1,389,740 | 9,299,256 |
| Beginning net position (deficit) - <i>restated</i> | <u>(5,409,160)</u> | <u>(14,708,416)</u> |
| Ending net position (deficit) | <u>\$ (4,019,420)</u> | <u>\$ (5,409,160)</u> |

Of the total governmental activities revenues of \$21,759,628, 13% (\$2,925,613) is from program revenue. This means that the government relies on general revenues to fund the majority of the cost of services provided to the citizens. Of those general revenues, 59% (\$11,032,642) comes from property and income taxes and 39% (\$7,255,251) is from state funding. The School District's operations are reliant upon its property and income taxes and the State's foundation program.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2019
Unaudited

Total revenues decreased by approximately \$469,000, primarily due to decreases in property tax revenue associated with the amounts available to be advanced from the County. The decrease was partially offset by increases in income taxes, due an improving local economy, intergovernmental revenue, due to increased federal and state funding, and investment earnings, due to higher amounts invested.

Total expenses increased by \$7.4 million. Approximately \$5.9 million of this increase is related to changes in pension and OPEB expenses; recognizing \$5.6 million in *negative* pension expense during fiscal year 2018 compared to \$1.8 million in pension expense during fiscal year 2019, and recognizing a \$1.5 million increase in *negative* OPEB expense. A majority of this is due to changes in assumptions in the STRS pension and OPEB plans, as previously discussed. The remaining increase was due to purchases of equipment and laptops that were below capitalization thresholds and repairs and maintenance.

Governmental Activities

The following table presents the total cost of each of the government's primary services, and the comparative net cost after deducting the revenues generated by each function. Approximately 14% of the cost of the general government programs was recouped in program revenues. Instruction costs were \$11,007,366 but program revenue contributed to fund 15% of those costs. Thus, general revenues of \$9,375,480 were used to support of remainder of the instruction costs.

| Governmental Activities | | | | |
|--------------------------------|-----------------------------------|----------------------------|---|---------------------------------|
| | Total Cost of Services | Program Revenue | Revenues as a % of Total Costs | Net Cost of Services |
| Instruction | \$ 11,007,366 | \$ 1,631,886 | 15% | \$ 9,375,480 |
| Support services | 7,623,734 | 159,431 | 2% | 7,464,303 |
| Non-instructional services | 657,313 | 244,580 | 37% | 412,733 |
| Food services | 850,479 | 889,716 | 105% | (39,237) |
| Interest and fiscal charges | <u>230,996</u> | <u>-</u> | 0% | <u>230,996</u> |
| Total | <u>\$ 20,369,888</u> | <u>\$ 2,925,613</u> | <u>14%</u> | <u>\$ 17,444,275</u> |

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S INDIVIDUAL FUNDS

Governmental funds

The focus of the School District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2019
Unaudited

The School District has two major governmental funds: the General Fund and the Permanent Improvement Fund. Assets of these two funds comprise 96% of the total \$16,314,931 governmental funds' assets.

General Fund. The General Fund is the School District's primary operating fund and ended with a fund balance of \$6,352,866 at June 30, 2019. Of this amount, \$5,233,487 is unassigned and represents 29% of total General Fund expenditures. Overall, the General Fund experienced an increase of \$300,386, or 5%.

Permanent Improvement Fund. The Permanent Improvement Fund is used to account for the School District's capital activity and ended the year with a fund balance of \$2,072,616. During the year, the School District continued investment in its facilities and equipment utilizing financing from the \$6 million lease-purchase agreement issued in the last fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The schedule comparing the School District's original and final budgets and actual results is included in the required supplementary information. During fiscal year 2019, the School District amended its General Fund budget with Clermont County as changes occurred in School District revenues. The change between the original and final budgeted revenue was a decrease of about 2%, with actual revenue coming in higher than estimated. Expenditures were in line with budget estimates, coming in \$225,274 under budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. At June 30, 2019, the School District had invested in a broad range of capital assets, including land, buildings, equipment, vehicles, and construction in progress. Capital activity during the year included continued work on roofing improvements and security enhancements and completion of HVAC improvements. The School District also had a full appraisal done, requiring adjustments to beginning balances. See Note 4 to the financial statements for more detail.

**Capital Assets at Year-End
(Net of Depreciation)**

| | FY2019 | <i>Restated</i> FY2018 |
|--------------------------------|---------------------|----------------------------------|
| Land | \$ 2,024,809 | \$ 2,024,809 |
| Construction in progress | 3,645,850 | 2,381,761 |
| Land improvements | 1,930,080 | 1,930,080 |
| Buildings and improvements | 10,872,244 | 10,872,244 |
| Furniture and equipment | 3,530,108 | 3,504,958 |
| Vehicles | 119,969 | 88,447 |
| Less: Accumulated depreciation | <u>(12,235,795)</u> | <u>(11,866,147)</u> |
| Total | <u>\$ 9,887,265</u> | <u>\$ 8,936,152</u> |

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2019
Unaudited

Debt. During the previous fiscal year, the School District entered into a \$6 million lease-purchase agreement, with an interest rate of 3.1% and matures on December 1, 2027. The amount outstanding as of June 30, 2019 was \$5,635,000, with \$550,000 due in fiscal year 2020. See Note 10 to the financial statements for more detail.

ECONOMIC FACTORS

The School District, like all other taxing entities in the State of Ohio, continues to face the uncertainty of the economy. The School District's operating revenue is composed primarily of property taxes and a local income tax. With a recovering economy and recent reappraisal, the School District is seeing tax revenue growth, and slowly recovering from their previous levels.

As for expenses, the School District faces continued significant increases in the cost of health care for its employees. The School District also faces an increasing number of children requiring special education and services and these charges also are increasing by double digits each year. The School District is facing these challenges by being conservative after making drastic cuts to its budget and services offered during the recessionary period.

REQUESTS FOR ADDITIONAL INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's office at the Clermont Northeastern Local School District, 2792 US Route 50, Batavia, Ohio 45103.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Statement of Net Position

June 30, 2019

| | Governmental Activities |
|---|----------------------------|
| Assets: | |
| Equity in pooled cash and investments | \$ 6,981,295 |
| Receivables: | |
| Taxes | 8,948,416 |
| Intergovernmental | 272,094 |
| Prepaid items | 21,063 |
| Materials and supplies inventory | 19,243 |
| Net OPEB asset | 1,012,742 |
| Nondepreciable capital assets | 5,670,659 |
| Depreciable capital assets, net | 4,216,606 |
| Total assets | <u>27,142,118</u> |
| Deferred Outflows of Resources: | |
| Pension | 5,187,349 |
| OPEB | 357,542 |
| Total deferred outflows of resources | <u>5,544,891</u> |
| Liabilities: | |
| Accounts payable | 206,214 |
| Accrued wages and benefits payable | 1,172,519 |
| Intergovernmental payable | 219,813 |
| Accrued interest payable | 65,507 |
| Noncurrent liabilities: | |
| Due within one year | 693,902 |
| Due within more than one year: | |
| Net pension liability | 18,209,340 |
| Net OPEB liability | 2,113,594 |
| Other amounts due within more than one year | 5,571,960 |
| Total liabilities | <u>28,252,849</u> |
| Deferred Inflows of Resources: | |
| Taxes levied for next fiscal year | 5,434,485 |
| Pension | 1,226,980 |
| OPEB | 1,792,115 |
| Total deferred inflows of resources | <u>8,453,580</u> |
| Net Position: | |
| Net investment in capital assets | 5,669,403 |
| Restricted for: | |
| Other purposes | 511,588 |
| Capital projects | 600,057 |
| Unrestricted (deficit) | <u>(10,800,468)</u> |
| Total net position | <u>\$ (4,019,420)</u> |

See accompanying notes.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Statement of Activities

Year Ended June 30, 2019

| | | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|---|---------------|--------------------------------------|--|--|
| | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Governmental Activities |
| Governmental Activities: | | | | |
| Instruction: | | | | |
| Regular | \$ 7,612,327 | \$ 998,163 | \$ 16,640 | \$ (6,597,524) |
| Special education | 3,129,266 | - | 554,316 | (2,574,950) |
| Other | 265,773 | - | 62,767 | (203,006) |
| Support services: | | | | |
| Pupil | 791,372 | - | - | (791,372) |
| Instructional staff | 492,210 | - | 104,004 | (388,206) |
| Board of Education | 38,486 | - | - | (38,486) |
| Administration | 1,404,413 | - | - | (1,404,413) |
| Fiscal | 463,558 | - | - | (463,558) |
| Business | 35,900 | - | - | (35,900) |
| Operation and maintenance of plant | 2,039,023 | - | - | (2,039,023) |
| Pupil transportation | 2,116,278 | 807 | - | (2,115,471) |
| Central | 242,494 | 46,484 | 8,136 | (187,874) |
| Non-instructional services: | | | | |
| Extracurricular activities | 457,759 | 89,185 | - | (368,574) |
| Community service | 199,554 | - | 155,395 | (44,159) |
| Food service | 850,479 | 439,931 | 449,785 | 39,237 |
| Interest on long-term debt | 230,996 | - | - | (230,996) |
| | \$ 20,369,888 | \$ 1,574,570 | \$ 1,351,043 | (17,444,275) |
| General Revenues: | | | | |
| Property taxes, levied for general purposes | | | | 6,401,636 |
| Property taxes, levied for permanent improvement | | | | 928,604 |
| Income taxes | | | | 3,702,402 |
| Grants and entitlements not restricted to specific programs | | | | 7,255,251 |
| Investment earnings | | | | 206,664 |
| Miscellaneous | | | | 339,458 |
| Total general revenues | | | | 18,834,015 |
| Change in net position | | | | 1,389,740 |
| Net position beginning of year, <i>restated</i> | | | | (5,409,160) |
| Net position end of year | | | | \$ (4,019,420) |

See accompanying notes.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Balance Sheet
 Governmental Funds
 June 30, 2019

| | General | Permanent Improvement | Other Governmental Funds | Total Governmental Funds |
|---|----------------------|--------------------------|--------------------------------|--------------------------------|
| Assets: | | | | |
| Equity in pooled cash and investments | \$ 4,565,469 | \$ 2,014,362 | \$ 401,464 | \$ 6,981,295 |
| Receivables: | | | | |
| Taxes | 7,920,213 | 1,028,203 | - | 8,948,416 |
| Intergovernmental | 40,767 | - | 231,327 | 272,094 |
| Prepaid items | 18,881 | - | 2,182 | 21,063 |
| Materials and supplies inventory | - | - | 19,243 | 19,243 |
| Interfund receivable | 72,820 | - | - | 72,820 |
| Total assets | \$ 12,618,150 | \$ 3,042,565 | \$ 654,216 | \$ 16,314,931 |
| Liabilities: | | | | |
| Accounts payable | \$ 38,037 | \$ 167,280 | \$ 897 | \$ 206,214 |
| Accrued wages and benefits payable | 1,086,139 | - | 86,380 | 1,172,519 |
| Intergovernmental payable | 177,573 | - | 42,240 | 219,813 |
| Interfund payable | - | - | 72,820 | 72,820 |
| Total liabilities | 1,301,749 | 167,280 | 202,337 | 1,671,366 |
| Deferred Inflows of Resources: | | | | |
| Taxes levied for next fiscal year | 4,641,902 | 792,583 | - | 5,434,485 |
| Unavailable revenue | 321,633 | 10,086 | 136,208 | 467,927 |
| Total deferred inflows of resources | 4,963,535 | 802,669 | 136,208 | 5,902,412 |
| Fund Balances: | | | | |
| Nonspendable | 18,881 | - | 21,425 | 40,306 |
| Restricted | - | 2,072,616 | 353,955 | 2,426,571 |
| Committed | 455,231 | - | - | 455,231 |
| Assigned | 645,267 | - | - | 645,267 |
| Unassigned (deficit) | 5,233,487 | - | (59,709) | 5,173,778 |
| Total fund balances | 6,352,866 | 2,072,616 | 315,671 | 8,741,153 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 12,618,150 | \$ 3,042,565 | \$ 654,216 | \$ 16,314,931 |

See accompanying notes.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Reconciliation of Total Governmental Fund Balances to

Net Position of Governmental Activities

June 30, 2019

Total Governmental Fund Balances \$ 8,741,153

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. 9,887,265

Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds. 467,927

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

| | | |
|--------------------------|------------------|---------------|
| Lease purchase agreement | (5,635,000) | |
| Accrued interest | (65,507) | |
| Compensated absences | <u>(630,862)</u> | (\$6,331,369) |

The net pension and OPEB liabilities are not due and payable in the current period. The net OPEB asset is not available to pay for current period expenditures. Therefore, the asset, liabilities, and related deferrals are not reported in the funds:

| | | |
|-----------------------------|--------------------|---------------------|
| Deferred outflows - pension | 5,187,349 | |
| Deferred inflows - pension | (1,226,980) | |
| Net pension liability | (18,209,340) | |
| Deferred outflows - OPEB | 357,542 | |
| Deferred inflows - OPEB | (1,792,115) | |
| Net OPEB asset | 1,012,742 | |
| Net OPEB liability | <u>(2,113,594)</u> | <u>(16,784,396)</u> |

Net Position of Governmental Activities \$ (4,019,420)

See accompanying notes.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2019

| | General | Permanent Improvement | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------------|--------------------------------|--------------------------------|
| Revenues: | | | | |
| Taxes | \$ 10,099,634 | \$ 930,391 | \$ - | \$ 11,030,025 |
| Tuition and fees | 998,163 | - | - | 998,163 |
| Charges for services | - | - | 439,931 | 439,931 |
| Interest | 129,205 | 77,459 | 1,462 | 208,126 |
| Intergovernmental | 7,135,538 | 119,713 | 1,350,295 | 8,605,546 |
| Other local revenues | 386,749 | - | 89,185 | 475,934 |
| Total revenues | <u>18,749,289</u> | <u>1,127,563</u> | <u>1,880,873</u> | <u>21,757,725</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 8,041,576 | 211,778 | 17,085 | 8,270,439 |
| Special education | 2,896,237 | 14,651 | 516,310 | 3,427,198 |
| Other | 254,208 | - | 54,051 | 308,259 |
| Support services: | | | | |
| Pupil | 869,911 | - | 30 | 869,941 |
| Instructional staff | 368,072 | 13,152 | 124,040 | 505,264 |
| Board of Education | 38,335 | - | - | 38,335 |
| Administration | 1,569,762 | 5,750 | - | 1,575,512 |
| Fiscal | 439,972 | 14,891 | - | 454,863 |
| Business | 35,900 | - | - | 35,900 |
| Operation and maintenance of plant | 1,224,441 | 200,507 | - | 1,424,948 |
| Pupil transportation | 1,967,163 | 31,556 | 116,964 | 2,115,683 |
| Central | 178,215 | - | 83,931 | 262,146 |
| Non-instructional services: | | | | |
| Extracurricular activities | 19,980 | 16,073 | 451,313 | 487,366 |
| Community service | - | 43,709 | 153,299 | 197,008 |
| Food service | - | - | 823,306 | 823,306 |
| Capital outlay | 131 | 1,878,797 | - | 1,878,928 |
| Debt Service: | | | | |
| Principal | - | 365,000 | - | 365,000 |
| Interest and fiscal charges | - | 212,376 | - | 212,376 |
| Total expenditures | <u>17,903,903</u> | <u>3,008,240</u> | <u>2,340,329</u> | <u>23,252,472</u> |
| Excess (deficiency) of revenue over (under) expenditures | <u>845,386</u> | <u>(1,880,677)</u> | <u>(459,456)</u> | <u>(1,494,747)</u> |
| Other financing sources (uses): | | | | |
| Transfers in | - | - | 545,000 | 545,000 |
| Transfers out | (545,000) | - | - | (545,000) |
| Total other financing sources (uses) | <u>(545,000)</u> | <u>-</u> | <u>545,000</u> | <u>-</u> |
| Net change in fund balance | 300,386 | (1,880,677) | 85,544 | (1,494,747) |
| Fund balance, beginning of year | <u>6,052,480</u> | <u>3,953,293</u> | <u>230,127</u> | <u>10,235,900</u> |
| Fund balance, end of year | <u>\$ 6,352,866</u> | <u>\$ 2,072,616</u> | <u>\$ 315,671</u> | <u>\$ 8,741,153</u> |

See accompanying notes.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2019

Net Change in Fund Balances - Total Governmental Funds \$ (1,494,747)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

| | | |
|-------------------------|------------------|---------|
| Capital asset additions | 1,320,761 | |
| Depreciation expense | <u>(369,648)</u> | 951,113 |

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

| | | |
|----------------------------|-----------------|----------|
| Compensated absences | (43,431) | |
| Interest on long-term debt | <u>(18,620)</u> | (62,051) |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

1,903

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

| | | |
|---------|---------------|-----------|
| Pension | 1,274,044 | |
| OPEB | <u>52,697</u> | 1,326,741 |

Except for amounts reported as deferred outflows or inflows of resources, changes in the net pension and OPEB liabilities and net OPEB asset reported as pension expense and negative OPEB expense in the statement of activities:

| | | |
|---------|------------------|---------|
| Pension | (1,792,471) | |
| OPEB | <u>2,094,252</u> | 301,781 |

Repayment of lease purchase principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

365,000

Change in Net Position of Governmental Activities \$ 1,389,740

See accompanying notes.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2019

| | <u>Private Purpose Trust</u> | <u>Agency Funds</u> |
|---------------------------------------|--------------------------------------|-------------------------|
| ASSETS | | |
| Equity in pooled cash and investments | \$ 36,994 | \$ 29,328 |
| Total assets | <u>36,994</u> | <u>29,328</u> |
| LIABILITIES | | |
| Due to student groups | <u>-</u> | <u>29,328</u> |
| Total liabilities | <u>-</u> | <u>\$ 29,328</u> |
| NET POSITION | | |
| Held in trust | <u>\$ 36,994</u> | |

See accompanying notes.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
Year Ended June 30, 2019

| | Private- Purpose Trust |
|--|------------------------------|
| Additions: | |
| Contributions | \$ <u>38,857</u> |
| Total additions | <u>38,857</u> |
| Deductions: | |
| Community gifts, awards and scholarships | <u>42,688</u> |
| Total deductions | <u>42,688</u> |
| Change in net position | (3,831) |
| Net position, beginning of year | <u>40,825</u> |
| Net position, end of year | <u><u>\$ 36,994</u></u> |

See accompanying notes.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

Clermont Northeastern 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 consisting of five members elected at-large for staggered four-year terms. The School District provides educational services to approximately 1,600 students and community members as authorized by state statute and/or federal guidelines. The School District was established in 1958 through the consolidation of existing school districts. The School District serves an area of approximately 84 square miles, is located in Clermont County, and includes all of the Villages of Owensville, Newtonsville, Marathon, Perintown, and Monterey.

Included within the reporting entity is a parochial school located within the School District boundaries. St. Louis Elementary is operated through the Cincinnati Catholic Archdiocese but current State legislation provides funding to this parochial school. This money is received and disbursed on behalf of the parochial school by the Treasurer of the School District, as directed by the parochial school. The activity related to this funding is reflected in a special revenue fund for financial reporting purposes.

The reporting entity is comprised of the primary government, which consists of all funds, departments, boards, and agencies that are not legally separate from the School District. This includes general operations, food service, and student related activities of the School District.

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

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The School District is associated with four organizations, two of which are defined as jointly governed organizations and two are insurance purchasing pools. These organizations include the Hamilton Clermont Cooperative Information Technology Center, the Great Oaks Institute of Technology and Career Development, the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan, and the Clermont County Health Trust. These organizations are presented in Notes 13 and 14 to the basic financial statements.

B. Basis of Presentation

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 statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District has no business-type activities.

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

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

Fund Financial Statements Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Fund Accounting

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

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

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

Permanent Improvement Fund – The permanent improvement fund is used to account for inside tax millage and lease purchase proceeds restricted for the acquisition, construction, or improvement of equipment and school facilities.

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

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made. The modified accrual basis of accounting is used by the governmental funds. On a modified accrual basis, revenues are recorded when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The available period for the School District is sixty days after fiscal year end. Under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes available for advance, interest, tuition, student fees, and grants.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable except for unmatured principal and interest on general long-term debt as well as expenditures related to compensated absences which are recognized when due. Allocations of cost, such as depreciation, are not recognized in the governmental funds.

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

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

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

Deferred Inflows of Resources. In addition to liabilities, the statement of net position and the balance sheet will report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources until that time. For the School District, deferred inflows of resources include property taxes, unavailable revenue, pension and other postemployment benefits (OPEB). Receivables for property taxes represent amounts that are measurable as of June 30, 2019, but are intended to finance 2020 operations. These amounts have been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund financial statements and represents receivables that will not be collected within the available period (sixty days after fiscal year-end). Deferred inflows of resources from pension and OPEB are reported on the government-wide statement of net position (see Notes 7 and 8).

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows of Resources. In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB (see Notes 7 and 8).

E. Cash and Investments

To improve cash management, all cash received by the School District is pooled in central bank accounts. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements. During fiscal year 2019, the School District's investments included STAR Ohio, negotiable certificates of deposit, and money market funds.

STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Investments in STAR Ohio are valued at the net asset value per share provided by STAR Ohio on an amortized cost basis at June 30, 2019, which approximates fair value.

For fiscal year 2019, there were no limitations or restrictions on any participants withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

The Governmental Accounting Standards Board Statement No. 72 (GASB 72), "*Fair Value Measurement and Application*," requires that investments be recorded at their fair value and that changes in the fair value be reported in the operating statement. The School District records its investments held at June 30, 2019 at fair value. In accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, money market investments are reported at amortized cost.

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

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Inventory and Prepaid Items

All inventories are valued at cost determined on a first-in, first-out basis. Inventory in governmental funds are recorded as expenditures in the governmental fund types when purchased.

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

Reported material and supplies inventory and prepaid items are equally offset by a nonspendable fund balance in the governmental funds, which indicates that they do not constitute available expendable resources even though they are a component of net current assets.

G. Capital Assets

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

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

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

| | |
|---|-------------|
| Buildings and building improvements | 25-40 years |
| Land improvements | 20 years |
| Equipment and furniture other than vehicles | 5-20 years |
| Vehicles | 8 years |

H. Interfund Balances

On the fund financials, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities' column of the statement of net position.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Compensated Absences

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

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

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, a liability is recorded only for the portion of unpaid compensated absences that has matured, for example, as a result of employee resignations and retirements.

J. Accrued Liabilities and Long-Term Obligations

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

K. Pensions/Other Postemployment Benefits (OPEB)

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

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 the governmental funds. The classifications are as follows:

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Net Position

Net position represents assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation and related debt. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. Estimates

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

2. DEPOSITS AND INVESTMENTS

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

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

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

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

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

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

2. DEPOSITS AND INVESTMENTS (continued)

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by the federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

2. DEPOSITS AND INVESTMENTS (continued)

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's custodial credit risk policy requires that deposits be collateralized as required by ORC Chapter 135. At year-end, the School District's bank balance of \$2,387,736 was covered by the Federal Depository Insurance Corporation or collateralized by the OPCS.

Investments

The School District's investments at June 30, 2019 are as summarized as follows:

| | <u>Balance at 6/30/19</u> | <u>Average Maturity Years</u> | <u>Concentration of Credit Risk</u> |
|-----------------------|-------------------------------|---------------------------------------|---|
| Negotiable CD's | \$ 503,923 | 0.42 | 10.4% |
| STAR Ohio | 4,053,288 | n/a | 83.7% |
| US Money Market Funds | <u>288,238</u> | n/a | 5.9% |
| | <u>\$ 4,845,449</u> | | |

Credit Risk

It is the School District's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings by nationally recognized statistical rating organizations. The School District's investment in STAR Ohio was rated AAAM by Standard & Poor's.

Custodial Credit Risk

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

Interest Rate Risk

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

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

2. DEPOSITS AND INVESTMENTS (continued)

Fair Value Measurements

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The School District's recurring fair value measurements, as of June 30, 2019, include its investment in negotiable CDs that are valued using pricing sources as provided by the investment managers (Level 2 inputs). As previously discussed, STAR Ohio is reported at its net asset value per share and money market funds are valued at amortized cost.

3. PROPERTY TAXES

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2019 represents collections of calendar year 2018 taxes. Real property taxes received in calendar year 2019 were levied after April 1, 2018, on the assessed value listed as of the prior January 1, 2018, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property taxes revenue received in calendar year 2019 represent collections of calendar year 2018 taxes. Public utility real and tangible personal property taxes received in calendar year 2019 became a lien on December 31, 2017, were levied after April 1, 2018 and are collected in calendar year 2019 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Clermont 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, 2019 are available to finance fiscal year 2019 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

3. PROPERTY TAXES (continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property and public utility taxes, which became measurable as of June 30, 2019. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred inflows of resources for that portion not intended to finance current year operations.

The amount available as an advance at June 30, 2019 was \$1,537,722 in the General Fund and \$225,534 in the Permanent Improvement Fund.

The assessed values upon which fiscal year 2019 taxes were collected are:

| | <u>2018 Second- Half Collections</u> | | <u>2019 First- Half Collections</u> | |
|---|--|----------------|---|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/Residential and Other Real Estate | \$ 325,519,750 | 96.90% | \$ 328,914,150 | 96.70% |
| Public Utility and Tangible Personal Property | <u>10,403,890</u> | 3.10% | <u>11,220,820</u> | 3.30% |
| Total Assessed Value | <u>\$ 335,923,640</u> | 100.00% | <u>\$ 340,134,970</u> | 100.00% |
| Tax rate per \$1,000 of assessed valuation | | \$33.50 | | \$33.50 |

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019 was as follows:

| | <i>Restated</i> Balance 7/1/18 | Additions | Disposals | Balance 6/30/19 |
|---------------------------------------|--------------------------------------|-------------------|-------------|---------------------|
| <i>Governmental Activities</i> | | | | |
| Nondepreciable: | | | | |
| Land | \$ 2,024,809 | \$ - | \$ - | \$ 2,024,809 |
| Construction in progress | <u>2,381,761</u> | <u>1,264,089</u> | <u>-</u> | <u>3,645,850</u> |
| Subtotal | <u>4,406,570</u> | <u>1,264,089</u> | <u>-</u> | <u>5,670,659</u> |
| Depreciable: | | | | |
| Land improvements | 1,930,080 | - | - | 1,930,080 |
| Buildings and improvements | 10,872,244 | - | - | 10,872,244 |
| Equipment and furniture | 3,504,958 | 25,150 | - | 3,530,108 |
| Vehicles | <u>88,447</u> | <u>31,522</u> | <u>-</u> | <u>119,969</u> |
| Subtotal | <u>16,395,729</u> | <u>56,672</u> | <u>-</u> | <u>16,452,401</u> |
| Totals at historical cost | <u>20,802,299</u> | <u>1,320,761</u> | <u>-</u> | <u>22,123,060</u> |
| Less accumulated depreciation: | | | | |
| Land improvements | (1,555,320) | (44,041) | - | (1,599,361) |
| Buildings and improvements | (7,531,894) | (202,282) | - | (7,734,176) |
| Equipment and furniture | (2,711,289) | (115,859) | - | (2,827,148) |
| Vehicles | <u>(67,644)</u> | <u>(7,466)</u> | <u>-</u> | <u>(75,110)</u> |
| Total accumulated depreciation | <u>(11,866,147)</u> | <u>(369,648)</u> | <u>-</u> | <u>(12,235,795)</u> |
| Capital assets, net | <u>\$ 8,936,152</u> | <u>\$ 951,113</u> | <u>\$ -</u> | <u>\$ 9,887,265</u> |

During fiscal year 2019, the School District had a full reappraisal done on its capital assets, which required adjustments to School District records. The adjustments had the following effect on beginning net position:

| | Governmental Activities |
|--|----------------------------|
| Net Position at June 30, 2018 | \$ (4,270,379) |
| Capital asset adjustments | <u>(1,138,781)</u> |
| Restated Net Position at June 30, 2018 | <u>\$ (5,409,160)</u> |

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

4. CAPITAL ASSETS (continued)

Depreciation expense was charged to functions as follows:

| | | | |
|------------------------------------|--|----|----------------|
| Instruction: | | | |
| Regular | | \$ | 285,134 |
| Special and other | | | 3,118 |
| Support services: | | | |
| Pupil | | | 374 |
| Instructional staff | | | 13,768 |
| Administration | | | 2,443 |
| Operation and maintenance of plant | | | 27,291 |
| Pupil transportation | | | 584 |
| Extracurricular activities | | | 17,791 |
| Food service | | | 19,145 |
| Total depreciation expense | | \$ | <u>369,648</u> |

5. INTERFUND TRANSACTIONS

Interfund transactions for the fiscal year ended June 30, 2019 consisted of the following:

| | Interfund | | Transfers | |
|--------------------------|------------------|------------------|-------------------|-------------------|
| | Receivables | Payables | In | Out |
| General Fund | \$ 72,820 | \$ - | \$ - | \$ 545,000 |
| Other Governmental Funds | - | 72,820 | 545,000 | - |
| | <u>\$ 72,820</u> | <u>\$ 72,820</u> | <u>\$ 545,000</u> | <u>\$ 545,000</u> |

The interfund loans were made to provide operating capital. Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, or (2) use unrestricted revenues collected in the general fund to finance various programs and capital improvements accounted for in other funds in accordance with budgetary authorizations.

6. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2019, the School District contracted with commercial carriers for property and fleet insurance, liability insurance and inland marine coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage in the last year.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

6. RISK MANAGEMENT (continued)

For fiscal year 2019, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated, and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control and actuarial services to the GRP.

For fiscal year 2019, the School District participated in the Clermont County Health Trust (the Trust), a group insurance purchasing pool (Note 14), in order to provide dental, life, medical, and disability benefits to employees, their dependents and designated beneficiaries and to set aside funds for such purposes. The Trustee provides insurance policies in whole or in part through one or more group insurance policies.

7. 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.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

7. DEFINED BENEFIT PENSION PLANS (continued)

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

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

Age and service requirements for retirement are as follows:

| Benefits | Eligible to Retire on or before August 1, 2017* | Eligible to Retire after August 1, 2017 |
|------------------------------|--|--|
| Full Benefits | Any age with 30 years of service credit Age 65 with 5 years of service credit | Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit |
| Actuarially Reduced Benefits | Age 60 with 5 years of service credit Age 55 with 25 years of service credit | Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit |

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

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

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

7. DEFINED BENEFIT PENSION PLANS (continued)

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

Funding Policy – Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10% for plan members and 14% for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2019 the allocation to pension, death benefits, and Medicare B was 13.5%. The remaining 0.5% was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$227,781 for fiscal year 2019.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.53% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47% of the 14% employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

7. DEFINED BENEFIT PENSION PLANS (continued)

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12% of the 14%-member rate goes to the DC Plan and 2% goes the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50 or later.

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 Ohio 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 Ohio bearing the risk of investment gain or loss on the account. STRS Ohio therefore has included all three plan options as one defined benefit plan for GASB Statement No. 68 reporting purposes.

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2019, plan members were required to contribute 14% of their annual covered salary. The School District was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was approximately \$1,046,263 for fiscal year 2019. Of this amount, \$175,552 is reported as an intergovernmental payable.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

7. DEFINED BENEFIT PENSION PLANS (continued)

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

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share and pension expense:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|--------------|---------------|---------------|
| Proportionate Share of the Net Pension Liability | \$ 4,351,628 | \$ 13,857,712 | \$ 18,209,340 |
| Proportion of the Net Pension Liability | 0.0760% | 0.0630% | |
| Change in Proportionate Share | -0.0015% | 0.0022% | |
| Pension Expense | \$ 290,983 | \$ 1,501,488 | \$ 1,792,471 |

At June 30, 2019, 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 | \$ 238,660 | \$ 319,879 | \$ 558,539 |
| Change in assumptions | 98,269 | 2,455,848 | 2,554,117 |
| Change in School District's proportionate share and difference in employer contributions | 30,677 | 769,972 | 800,649 |
| School District's contributions subsequent to the measurement date | <u>227,781</u> | <u>1,046,263</u> | <u>1,274,044</u> |
| Total Deferred Outflows of Resources | <u>\$ 595,387</u> | <u>\$ 4,591,962</u> | <u>\$ 5,187,349</u> |

| | | | |
|--|-------------------|-------------------|---------------------|
| Deferred Inflows of Resources | | | |
| Differences between expected and actual experience | \$ - | \$ 90,498 | \$ 90,498 |
| Net difference between projected and actual earnings on pension plan investments | 120,571 | 840,316 | 960,887 |
| Change in School District's proportionate share and difference in employer contributions | <u>109,419</u> | <u>66,176</u> | <u>175,595</u> |
| Total Deferred Inflows of Resources | <u>\$ 229,990</u> | <u>\$ 996,990</u> | <u>\$ 1,226,980</u> |

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

7. DEFINED BENEFIT PENSION PLANS (continued)

\$1,274,044 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows:

| Fiscal Year Ending June 30: | SERS | STRS | Total |
|-----------------------------|-------------------|---------------------|---------------------|
| 2020 | \$ 266,500 | \$ 1,385,583 | \$ 1,652,083 |
| 2021 | 50,903 | 960,231 | 1,011,134 |
| 2022 | (142,809) | 298,342 | 155,533 |
| 2023 | (36,978) | (95,447) | (132,425) |
| | <u>\$ 137,616</u> | <u>\$ 2,548,709</u> | <u>\$ 2,686,325</u> |

Actuarial Assumptions - SERS

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

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

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will consider the employee's entire career with the employer and 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.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

7. DEFINED BENEFIT PENSION PLANS (continued)

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

| | |
|--|---|
| Inflation | 3.00% |
| Future Salary Increases, including Inflation | 3.50% to 18.20% |
| COLA or Ad Hoc COLA | 2.50% on and after April 1, 2018, COLA's for future retirees will be delayed for three years following retirement |
| Investment Rate of Return | 7.50% net of investment expense, including inflation |
| Actuarial Cost Method | Entry Age Normal |

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 for active members. 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% of male rates, and 110% of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

The actuarial assumptions used were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015 adopted by the Board on April 21, 2016.

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.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

7. DEFINED BENEFIT PENSION PLANS (continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|------------------------|-------------------|--|
| Cash | 1.00 % | 0.50 % |
| U.S. Stocks | 22.50 | 4.75 |
| Non-U.S. Stock | 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 – Total pension liability was calculated using the discount rate of 7.5%. 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 (7.5%). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.5%, 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 (6.5%), or one percentage point higher (8.5%) 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 | \$6,129,596 | \$4,351,628 | \$2,860,921 |

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

7. DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|-----------------------------------|--|
| Inflation | 2.50% |
| Salary increases | 12.50% at age 20 to 2.50% at age 65 |
| Payroll increases | 3.00% |
| Investment rate of return | 7.45%, net of investment expenses, including inflation |
| Discount rate of return | 7.45% |
| Cost-of-living adjustments (COLA) | 0% |

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

The actuarial assumptions were based on the results of an actual experience study for the period July 1, 2011 through June 30, 2016.

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:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return* |
|----------------------|-------------------|---|
| 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 nominal returns, which include the real rate of return and inflation of 2.25% 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.*

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

7. DEFINED BENEFIT PENSION PLANS (continued)

Discount Rate – The discount rate used to measure the total pension liability was 7.45% as of June 30, 2018. 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, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

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%, 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%) or one-percentage-point higher (8.45%) 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 | \$20,237,364 | \$13,857,712 | \$8,458,202 |

Social Security System

All employees not otherwise covered by SERS or STRS have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. Members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS

Net OPEB Liability (Asset)

The net OPEB liability (asset) reported on the statement of net position represents a liability to (or assets for) 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.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS (continued)

The net OPEB liability (asset) 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 (asset) calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments, health care cost trend rates 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 Statement No. 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 (asset). Resulting adjustments to the net OPEB liability (asset) 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 contractually-required OPEB contributions outstanding at the end of the fiscal 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 Statement No. 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. 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.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS (continued)

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% of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5% 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 2019, the minimum compensation amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the School District's surcharge obligation was \$44,261.

The surcharge, added to the 0.5% allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$52,697 for fiscal year 2019. Of this amount \$44,261 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.

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% of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS (continued)

OPEB Liability (Asset), OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability (asset) was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability (asset) 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:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|---|--------------|----------------|----------------|
| Proportionate Share of the Net OPEB Liability (Asset) | \$ 2,113,594 | \$ (1,012,742) | \$ 1,100,852 |
| Proportion of the Net OPEB Liability (Asset) | 0.0762% | 0.0630% | |
| Change in Proportionate Share (Negative) OPEB Expense | \$ 78,005 | \$ (2,172,257) | \$ (2,094,252) |

At June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|-------------------|---------------------|---------------------|
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | \$ 34,500 | \$ 118,290 | \$ 152,790 |
| Change in School District's proportionate share and difference in employer contributions | 17,108 | 134,947 | 152,055 |
| School District's contributions subsequent to the measurement date | <u>52,697</u> | <u>-</u> | <u>52,697</u> |
| Total Deferred Outflows of Resources | <u>\$ 104,305</u> | <u>\$ 253,237</u> | <u>\$ 357,542</u> |
| Deferred Inflows of Resources | | | |
| Differences between expected and actual experience | \$ - | \$ 59,004 | \$ 59,004 |
| Net difference between projected and actual earnings on OPEB plan investments | 3,170 | 115,696 | 118,866 |
| Change in assumptions | 189,890 | 1,379,944 | 1,569,834 |
| Change in School District's proportionate share and difference in employer contributions | <u>44,411</u> | <u>-</u> | <u>44,411</u> |
| Total Deferred Inflows of Resources | <u>\$ 237,471</u> | <u>\$ 1,554,644</u> | <u>\$ 1,792,115</u> |

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS (continued)

\$52,697 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, 2020.

Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Fiscal Year Ending June 30: | SERS | STRS | Total |
|-----------------------------|---------------------|-----------------------|-----------------------|
| 2020 | \$ (75,770) | \$ (232,805) | \$ (308,575) |
| 2021 | (61,232) | (232,805) | (294,037) |
| 2022 | (15,192) | (232,805) | (247,997) |
| 2023 | (13,842) | (206,529) | (220,371) |
| 2024 | (14,062) | (197,315) | (211,377) |
| 2025 | (5,765) | (199,148) | (204,913) |
| | <u>\$ (185,863)</u> | <u>\$ (1,301,407)</u> | <u>\$ (1,487,270)</u> |

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 consider the employee’s entire career with the employer and 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.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS (continued)

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

| | |
|--|--|
| Investment Rate of Return | 7.50% net of investment expense, including inflation |
| Wage Inflation | 3.00% |
| Future Salary Increases, including Inflation | 3.50% to 18.20% |

Municipal Bond Index Rate:

| | |
|------------------------|-------|
| Prior Measurement Date | 3.56% |
| Measurement Date | 3.62% |

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

| | |
|------------------------|-------|
| Prior Measurement Date | 3.63% |
| Measurement Date | 3.70% |

Medical Trend Assumption:

| | |
|--------------|----------------|
| Pre-Medicare | 7.25% - 4.75% |
| Medicare | 5.375% - 4.75% |

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

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%, 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.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS (continued)

The target 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 in the following table:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|------------------------|-------------------|--|
| Cash | 1.00 % | 0.50 % |
| U.S. Stocks | 22.50 | 4.75 |
| Non-U.S. Stock | 22.50 | 7.00 |
| Fixed Income | 19.00 | 1.50 |
| Private Equity | 10.00 | 8.00 |
| Real Estate | 15.00 | 5.00 |
| Multi-Asset Strategies | 10.00 | 3.00 |
| Total | 100.00 % | |

Discount Rate – The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70%. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and SERS at the state statute contribution rate of 2.00% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% of contributions from 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 3.62% as of June 30, 2018 (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 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 calculated using the discount rate of 3.70%, as well as what the School District’s net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.70%) and one percentage point higher (4.70%) than the current rate.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS (continued)

| | 1% Decrease (2.70%) | Current Discount Rate (3.70%) | 1% Increase (4.70%) |
|---|------------------------|-------------------------------------|------------------------|
| School District's proportionate share of the net OPEB liability | \$2,564,680 | \$2,113,594 | \$1,756,418 |

The following table presents the net OPEB liability calculated using current health care cost trend rates, as well as what the School District's net OPEB liability would be if it were calculated using health care cost trend rates that are one percentage point lower (6.25% decreasing to 3.75%) and one percentage point higher (8.25% decreasing to 5.75%) than the current rates.

| | 1% Decrease (6.25% decreasing to 3.75%) | Current Trend Rates (7.25% decreasing to 4.75%) | 1% Increase (8.25% decreasing to 5.75%) |
|---|---|--|---|
| School District's proportionate share of the net OPEB liability | \$1,705,283 | \$2,113,594 | \$2,654,272 |

Actuarial Assumptions - STRS

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement:

| | | |
|---------------------------|--|----------|
| Salary increases | 12.50% at age 20 to 2.50% at age 65 | |
| Payroll increases | 3.00% | |
| Investment rate of return | 7.45%, net of investment expenses, including inflation | |
| Discount rate of return | 7.45% | |
| Health care cost trends | Initial | Ultimate |
| Medical | | |
| Pre-Medicare | 6.00% | 4.00% |
| Medicare | 5.00% | 4.00% |
| Prescription Drug | | |
| Pre-Medicare | 8.00% | 4.00% |
| Medicare | -5.23% | 4.00% |

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

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS (continued)

Actuarial assumptions used in the June 30, 2018 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 4.13% to 7.45% based on the methodology defined under GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*. Valuation year per capita health care costs were updated.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9% to 1.944% per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

STRS Ohio's 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:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return* |
|----------------------|-------------------|---|
| 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 nominal returns, which include the real rate of return and inflation of 2.25%, but does not include investment expenses. Over a 30-year period, STRS Ohio's investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.*

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

8. OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLANS (continued)

Discount Rate – The discount rate used to measure the total OPEB liability was 7.45% as of June 30, 2018. 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 projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan assets of 7.45% was used to measure the total OPEB liability as of June 30, 2018.

Sensitivity of the School District's Proportionate Share of the Net OPEB (Asset) to Changes in the Discount Rate and the Health Care Cost Trend Rates – The following table presents the School District's proportionate share of the net OPEB (asset) calculated using the current period discount rate assumption of 7.45%, as well as what the School District's proportionate share of the net OPEB (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.45%) and one percentage point higher (8.45%) than the current rate. Also shown is the net OPEB (asset) as if it were calculated using health care cost trend rates that are one percentage point lower and one percentage point higher than the current health care cost trend rates:

| | 1% Decrease (6.45%) | Current Discount Rate (7.45%) | 1% Increase (8.45%) |
|---|------------------------|-------------------------------------|------------------------|
| School District's proportionate share of the net OPEB (asset) | (\$868,015) | (\$1,012,742) | (\$1,134,379) |

| | 1% Decrease | Current Trend Rates | 1% Increase |
|---|---------------|------------------------|-------------|
| School District's proportionate share of the net OPEB (asset) | (\$1,127,512) | (\$1,012,742) | (\$896,184) |

9. EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave components 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. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. All employees earn sick leave at the rate of 1.25 days per month. Sick leave may be accumulated up to maximum of 250 days for all employees and administrators. Upon retirement, payment is made for 30% of the employee’s accumulated sick leave up to a maximum of 60 days for teachers and administrators, and 45 for classified employees.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

10. LONG-TERM OBLIGATIONS

Long-term liability activity for the year ended June 30, 2019 was as follows:

| | Balance Outstanding 7/1/18 | Additions | Reductions | Balance Outstanding 6/30/19 | Due Within One Year |
|--------------------------|----------------------------------|-------------------|-----------------------|-----------------------------------|------------------------|
| Direct borrowing: | | | | | |
| Lease-purchase agreement | \$ 6,000,000 | \$ - | \$ (365,000) | \$ 5,635,000 | \$ 550,000 |
| Compensated absences | 598,303 | 163,112 | (130,553) | 630,862 | 143,902 |
| Net pension liability: | | | | | |
| STRS | 14,445,093 | - | (587,381) | 13,857,712 | - |
| SERS | 4,631,176 | - | (279,548) | 4,351,628 | - |
| | <u>19,076,269</u> | <u>-</u> | <u>(866,929)</u> | <u>18,209,340</u> | <u>-</u> |
| Net OPEB liability: | | | | | |
| STRS | 2,372,507 | - | (2,372,507) | - | - |
| SERS | 2,090,634 | 22,960 | - | 2,113,594 | - |
| | <u>4,463,141</u> | <u>22,960</u> | <u>(2,372,507)</u> | <u>2,113,594</u> | <u>-</u> |
| Total | <u>\$ 30,137,713</u> | <u>\$ 186,072</u> | <u>\$ (3,734,989)</u> | <u>\$ 26,588,796</u> | <u>\$ 693,902</u> |

On March 29, 2018, the School District entered into a lease purchase agreement with the Branch Banking and Trust Company for \$6,000,000 to finance various equipment acquisition and facilities improvements. The lease purchase agreement bears an interest rate of 3.1% and will mature on December 1, 2027.

Compensated absences and the net pension and OPEB liabilities will be paid from the fund from which the employees' salaries are paid.

Principal and interest requirements to retire the lease purchase agreement balance outstanding at June 30, 2019 are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|--------------------------------|---------------------|-------------------|---------------------|
| 2020 | \$ 550,000 | \$ 174,685 | \$ 724,685 |
| 2021 | 570,000 | 157,635 | 727,635 |
| 2022 | 585,000 | 139,965 | 724,965 |
| 2023 | 605,000 | 121,830 | 726,830 |
| 2024 | 625,000 | 103,075 | 728,075 |
| 2025-2028 | <u>2,700,000</u> | <u>212,350</u> | <u>2,912,350</u> |
| Total | <u>\$ 5,635,000</u> | <u>\$ 909,540</u> | <u>\$ 6,544,540</u> |

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

11. FUND BALANCES

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

| Fund Balances | General | Permanent Improvement | Other Governmental Funds | Total Governmental Funds |
|------------------------------|---------------------|--------------------------|--------------------------------|--------------------------------|
| <i>Nonspendable</i> | | | | |
| Inventory | \$ - | \$ - | \$ 19,243 | \$ 19,243 |
| Prepaid items | 18,881 | - | 2,182 | 21,063 |
| <i>Total Nonspendable</i> | <u>18,881</u> | <u>-</u> | <u>21,425</u> | <u>40,306</u> |
| <i>Restricted for</i> | | | | |
| Food Service Operations | - | - | 187,188 | 187,188 |
| Athletics | - | - | 107,885 | 107,885 |
| Auxiliary Schools | - | - | 49,810 | 49,810 |
| State Grant Programs | - | - | 9,072 | 9,072 |
| Capital Improvements | - | 2,072,616 | - | 2,072,616 |
| <i>Total Restricted</i> | <u>-</u> | <u>2,072,616</u> | <u>353,955</u> | <u>2,426,571</u> |
| <i>Committed to</i> | | | | |
| Termination Benefits | 455,231 | - | - | 455,231 |
| <i>Assigned to</i> | | | | |
| Public School Support | 68,103 | - | - | 68,103 |
| Encumbrances | 298,788 | - | - | 298,788 |
| Budget Resource | 278,376 | - | - | 278,376 |
| <i>Total Assigned</i> | <u>645,267</u> | <u>-</u> | <u>-</u> | <u>645,267</u> |
| <i>Unassigned (Deficit)</i> | <u>5,233,487</u> | <u>-</u> | <u>(59,709)</u> | <u>5,173,778</u> |
| <i>Total Fund Balance</i> | <u>\$ 6,352,866</u> | <u>\$ 2,072,616</u> | <u>\$ 315,671</u> | <u>\$ 8,741,153</u> |

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

12. FUND BALANCE DEFICITS

At June 30, 2019, the following funds had a deficit fund balance:

| | |
|-----------------------------------|-----------|
| Other Governmental Funds: | |
| Special Education Fund | \$ 21,101 |
| Title I, Part A Fund | 25,001 |
| Preschool Special Education Fund | 12,098 |
| Miscellaneous Federal Grants Fund | 1,509 |

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

13. JOINTLY GOVERNED ORGANIZATIONS

The Hamilton Clermont Cooperative Information Technology Center

The Hamilton Clermont Cooperative Information Technology Center (HCC) is a jointly governed organization among a two-county consortium of school districts. HCC is an association of public districts in a geographic area determined by the Ohio Department of Education. 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 districts. The executive committee is the managerial body responsible for directing and supervising the daily operation of HCC. The executive committee is composed of up to 12 members; two superintendents from each county, the superintendent from each county educational service center (ESC), one treasurer from each county, and the treasurer from each county ESC serving as non-voting ex officio members. To obtain financial information, write to HCC at 1007 Cottonwood Drive, Loveland, Ohio 45140.

The Great Oaks Institute of Technology and Career Development

The Great Oaks Institute of Technology and Career Development, a jointly governed organization, is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from each of the participating school district's elected board. The Board possesses its own budgeting and taxing authority as a separate body politic and corporate, established by the Ohio Revised Code. Great Oaks was formed for the purpose of providing vocational education opportunities to the students of the member school districts, which includes the students of the School District. The School District has no ongoing financial interest in nor responsibility for Great Oaks. For financial information, write to Great Oaks at 3254 East Kemper Road, Cincinnati, Ohio 45241.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

14. INSURANCE PURCHASING POOLS

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

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

The Clermont County Health Trust

The Clermont County Health Trust (the Trust), an insurance purchasing pool, is a health trust formed to provide affordable and desirable dental, life, medical, and other disability group insurance for member's employees, eligible dependents and designated beneficiaries of such employees. The Board of Directors consists of one representative from each of the participating members and is elected by the vote of a majority of the member school districts. The School District pays premiums to a third-party administrator which in turns buys the insurance policies from various insurance companies.

Upon termination, the School District shall be responsible for prompt payment of all plan liabilities accruing as a result of such termination and maintain no right to any assets of the Trust. The School District may terminate participation in the Trust for the benefit of its employees upon written notice to the Trustee delivered at least sixty days prior to the annual review date of the policy. Financial information can be obtained from the Clermont County Health Trust at P. O. Box 526, Middletown, Ohio 45042.

15. CONTINGENCIES

Federal and State Funding

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2019, if applicable, cannot be determined at this time.

Litigation

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

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2019

15. CONTINGENCIES (continued)

School Foundation Funding

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2019 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2019 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the School District.

16. REQUIRED SET-ASIDES

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

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

| | <u>Capital Improvements</u> |
|---|---------------------------------|
| Set-aside reserve balance June 30, 2018 | \$ - |
| Current year set-aside requirement | 260,526 |
| Current year offsets | <u>(1,142,615)</u> |
| Total | <u><u>(882,089)</u></u> |
| | |
| Set-aside reserve balance June 30, 2019 | \$ <u><u>-</u></u> |

17. INCOME TAXES

As approved by voters, the School District levies a 1% school income tax on wages earned by residents of the School District. The taxes are collected by the State Department of Taxation in the same manner as the state income tax. In the fiscal year ended June 30, 2019, the School District recorded income tax revenue of \$3,702,402 in the entity-wide financials and a receivable as of June 30, 2019 of \$1,672,790.

REQUIRED SUPPLEMENTARY INFORMATION

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund

Balance - Budget and Actual (Non-GAAP Budgetary Basis)

General Fund

Year Ended June 30, 2019

| | Original Budget | Final Budget | Actual | Variance With Final Budget |
|--------------------------------------|---------------------|---------------------|---------------------|----------------------------------|
| Revenues: | | | | |
| Taxes | \$ 9,942,000 | \$ 9,614,624 | \$ 9,796,107 | \$ 181,483 |
| Tuition and fees | 1,070,000 | 1,070,000 | 945,952 | (124,048) |
| Interest | 100,000 | 100,000 | 129,205 | 29,205 |
| Intergovernmental | 7,025,000 | 7,025,000 | 7,137,201 | 112,201 |
| Other local revenues | 312,000 | 312,000 | 298,691 | (13,309) |
| Total revenues | <u>18,449,000</u> | <u>18,121,624</u> | <u>18,307,156</u> | <u>185,532</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 8,424,639 | 8,424,639 | 8,038,025 | 386,614 |
| Special education | 2,706,594 | 2,706,594 | 2,779,943 | (73,349) |
| Other instruction | 162,165 | 162,165 | 250,111 | (87,946) |
| Support services: | | | | |
| Pupil | 827,906 | 827,906 | 828,066 | (160) |
| Instructional staff | 379,714 | 379,714 | 381,276 | (1,562) |
| Board of Education | 41,945 | 41,945 | 39,406 | 2,539 |
| Administration | 1,414,435 | 1,414,435 | 1,397,491 | 16,944 |
| Fiscal | 562,684 | 562,684 | 447,520 | 115,164 |
| Business | 53,660 | 53,660 | 46,564 | 7,096 |
| Operation and maintenance of plant | 1,162,827 | 1,162,827 | 1,208,653 | (45,826) |
| Pupil transportation | 1,892,175 | 1,892,175 | 1,968,101 | (75,926) |
| Central | 128,049 | 128,049 | 155,857 | (27,808) |
| Non-instructional services: | | | | |
| Extracurricular activities | 20,472 | 20,472 | 13,346 | 7,126 |
| Capital outlay | 2,499 | 2,499 | 131 | 2,368 |
| Total expenditures | <u>17,779,764</u> | <u>17,779,764</u> | <u>17,554,490</u> | <u>225,274</u> |
| Excess of revenue over expenditures | 669,236 | 341,860 | 752,666 | 410,806 |
| Other financing uses: | | | | |
| Transfers out | (896,150) | (896,150) | (795,055) | 101,095 |
| Other financing uses | (2,522) | (2,522) | - | 2,522 |
| Total other financing uses | <u>(898,672)</u> | <u>(898,672)</u> | <u>(795,055)</u> | <u>103,617</u> |
| Change in fund balance | (229,436) | (556,812) | (42,389) | \$ 514,423 |
| Fund balance, beginning of year | 3,677,679 | 3,677,679 | 3,677,679 | |
| Prior year encumbrances appropriated | 278,436 | 278,436 | 278,436 | |
| Fund balance, end of year | <u>\$ 3,726,679</u> | <u>\$ 3,399,303</u> | <u>\$ 3,913,726</u> | |

See accompanying notes to required supplementary information.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
 Required Supplementary Information
 Schedule of School District's Proportionate Share of the Net Pension Liability
 School Employees Retirement System of Ohio
 Last Six Fiscal Years (1) (2)

| | School District's Proportion of the Net Pension Liability | School District's Proportionate Share of the Net Pension Liability | School District's Covered Payroll | School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|------|--|---|---|--|--|
| 2014 | 0.0763% | \$ 4,539,041 | \$ 1,709,545 | 265.51% | 65.52% |
| 2015 | 0.0763% | 3,862,967 | 2,240,375 | 172.43% | 71.70% |
| 2016 | 0.0760% | 4,333,781 | 2,988,900 | 145.00% | 69.16% |
| 2017 | 0.0758% | 5,544,135 | 2,142,414 | 258.78% | 62.98% |
| 2018 | 0.0775% | 4,631,176 | 2,241,636 | 206.60% | 69.50% |
| 2019 | 0.0760% | 4,351,628 | 1,819,244 | 239.20% | 71.36% |

(1) Information prior to 2014 is not available. The School District will continue to present information for years available until a full ten-year trend is compiled.

(2) Amounts presented for each year were determined as of the School District's measurement date, which is the prior fiscal year-end.

Notes to Schedule:

Change in assumptions. In measurement year 2017, changes in assumptions were made based upon an updated experience study that was completed for the five-year period ended June 30, 2015. Significant changes included a reduction of the discount rate from 7.75% to 7.50%, a reduction in the wage inflation rate from 3.25% to 3.00%, a reduction in the payroll growth assumption used from 4.00% to 3.50%, reduction in the assumed real wage growth rate from 0.75% to 0.50%, update of the rates of withdrawal, retirement and disability to reflect recent experience, and transition from the RP-2000 mortality tables to the RP-2014 mortality tables for active members and service retired members and beneficiaries.

Changes of benefit and funding terms. In measurement year 2018, post-retirement increases in benefits included the following changes:

1. Members, or their survivors, retiring prior to January 1, 2018, receive a COLA increase of 3% of their base benefit on the anniversary of their initial date of retirement.
2. Members, or their survivors, retiring on and after January 1, 2018, receive a COLA increase on each anniversary of their initial date of retirement equal to the annual rate of increase in the CPI-W measured as of the June preceding the beginning of the applicable calendar year. The annual rate of increase shall not be less than 0%, nor greater than 2.5%. COLAs are suspended for calendar years 2018, 2019, and 2020.
3. Members, or their survivors, retiring on and after April 1, 2018, will have their COLA delayed for three years following their initial date of retirement.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
 Required Supplementary Information
 Schedule of School District's Proportionate Share of the Net Pension Liability
 State Teachers Retirement System of Ohio
 Last Six Fiscal Years (1) (2)

| | School District's Proportion of the Net Pension Liability | School District's Proportionate Share of the Net Pension Liability | School District's Covered Payroll | School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|------|--|---|---|--|--|
| 2014 | 0.0584% | \$ 16,930,285 | 7,071,515 | 239.42% | 69.30% |
| 2015 | 0.0584% | 14,212,877 | 6,429,462 | 221.06% | 74.70% |
| 2016 | 0.0592% | 16,353,194 | 7,112,721 | 229.91% | 72.09% |
| 2017 | 0.0593% | 19,863,968 | 7,756,407 | 256.10% | 66.78% |
| 2018 | 0.0608% | 14,445,093 | 8,338,064 | 173.24% | 75.30% |
| 2019 | 0.0630% | 13,857,712 | 7,228,857 | 191.70% | 77.30% |

(1) Information prior to 2014 is not available. The School District will continue to present information for years available until a full ten-year trend is compiled.

(2) Amounts presented for each year were determined as of the School District's measurement date, which is the prior fiscal year-end.

Notes to Schedule:

Change in assumptions. In measurement year 2017, changes in assumptions were made based upon an updated experience study that was completed for the five-year period ended June 30, 2016. Significant changes included a reduction of the discount rate from 7.75% to 7.45%, the inflation assumption was lowered from 2.75% to 2.50%, 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 healthy 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.

Change in benefit terms. Effective July 1, 2017, the COLA was reduced to zero.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Required Supplementary Information
 Schedule of School District's Pension Contributions
 School Employees Retirement System of Ohio
 Last Seven Fiscal Years (1)

| | Contractually Required Contributions | Contributions in Relation to the Contractually Required Contributions | Contribution Deficiency (Excess) | School District's Covered Payroll | Contributions as a Percentage of Covered Payroll |
|------|--|---|--|---|---|
| 2013 | \$ 236,601 | \$ (236,601) | \$ - | \$ 1,709,545 | 13.84% |
| 2014 | 310,516 | (310,516) | - | 2,240,375 | 13.86% |
| 2015 | 393,937 | (393,937) | - | 2,988,900 | 13.18% |
| 2016 | 299,938 | (299,938) | - | 2,142,414 | 14.00% |
| 2017 | 313,829 | (313,829) | - | 2,241,636 | 14.00% |
| 2018 | 245,598 | (245,598) | - | 1,819,244 | 13.50% |
| 2019 | 227,781 | (227,781) | - | 1,687,267 | 13.50% |

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

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Required Supplementary Information
Schedule of School District's Pension Contributions
State Teachers Retirement System of Ohio
Last Seven Fiscal Years (1)

| | Contractually Required Contributions | Contributions in Relation to the Contractually Required Contributions | Contribution Deficiency (Excess) | School District's Covered Payroll | Contributions as a Percentage of Covered Payroll |
|------|--|---|--|---|---|
| 2013 | \$ 919,297 | \$ (919,297) | \$ - | \$ 7,071,515 | 13.00% |
| 2014 | 835,830 | (835,830) | - | 6,429,462 | 13.00% |
| 2015 | 995,781 | (995,781) | - | 7,112,721 | 14.00% |
| 2016 | 1,085,897 | (1,085,897) | - | 7,756,407 | 14.00% |
| 2017 | 1,167,329 | (1,167,329) | - | 8,338,064 | 14.00% |
| 2018 | 1,012,040 | (1,012,040) | - | 7,228,857 | 14.00% |
| 2019 | 1,046,263 | (1,046,263) | - | 7,473,307 | 14.00% |

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

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
 Required Supplementary Information
 Schedule of School District's Proportionate Share of the Net OPEB Liability
 School Employees Retirement System of Ohio
 Last Three Fiscal Years (1) (2)

| | School District's Proportion of the Net OPEB Liability | School District's Share of the Net OPEB Liability | School District's Covered Payroll | School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability |
|------|---|---|---|---|---|
| 2017 | 0.0762% | \$ 2,172,202 | \$ 2,142,414 | 101.39% | 11.49% |
| 2018 | 0.0779% | 2,090,634 | 2,241,636 | 93.26% | 12.46% |
| 2019 | 0.0762% | 2,113,594 | 1,819,244 | 116.18% | 13.57% |

(1) Information prior to 2017 is not available. The School District will continue to present information for years available until a full ten-year trend is compiled.

(2) Amounts presented for each year were determined as of the School District's measurement date, which is the prior fiscal year-end.

Notes to Schedule:

Change in assumptions. In measurement year 2017, changes in assumptions were made based upon an updated experience study that was completed for the five-year period ended June 30, 2015. Significant changes included a reduction in the rate of inflation from 3.25% to 3.00%, a reduction in the payroll growth assumption from 4.00% to 3.50%, a reduction in assumed real wage growth from 0.75% to 0.50%, an update in rates of withdrawal, retirement and disability, and transitioning to the following mortality tables: RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set back for both active male and female members; RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB (120% of male rates, and 110% of female rates) for service retired members and beneficiaries; and RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement among disabled members.

In measurement year 2018, medical trend rates have been adjusted to reflect premium decreases.

Change in benefit and funding terms. In measurement year 2018, SERS' funding policy allowed a 2.0% health care contribution rate to be allocated to the Health Care fund. The 2.0% is a combination of 0.5% employer contributions and 1.5% surcharge.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
 Required Supplementary Information
 Schedule of School District's Proportionate Share of the Net OPEB Liability (Asset)
 State Teachers Retirement System of Ohio
 Last Three Fiscal Years (1) (2)

| | School District's Proportion of the Net OPEB Liability (Asset) | School District's Proportionate Share of the Net OPEB Liability (Asset) | School District's Covered Payroll | School District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset) |
|------|--|---|---|---|---|
| 2017 | 0.0593% | \$ 3,173,691 | \$ 7,756,407 | 40.92% | 37.3% |
| 2018 | 0.0608% | 2,372,507 | 8,338,064 | 28.45% | 47.1% |
| 2019 | 0.0630% | (1,012,742) | 7,228,857 | (14.01%) | 176.0% |

(1) Information prior to 2017 is not available. The School District will continue to present information for years available until a full ten-year trend is compiled.

(2) Amounts presented for each year were determined as of the School District's measurement date, which is the prior fiscal year-end.

Notes to Schedule:

Change in assumption. For measurement year 2017, the discount rate was increased from 3.26% to 4.13% 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% to 7.45%. 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.

For measurement year 2018, the discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74. Valuation year per capital health care costs were updated.

Change in benefit terms. For measurement year 2017, the subsidy multiplier for non-Medicare benefit recipient was reduced from 2.1% to 1.9% 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.

For measurement year 2018, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

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

| | Contractually Required Contributions (2) | Contributions in Relation to the Contractually Required Contributions | Contribution Deficiency (Excess) | School District's Covered Payroll | Contributions as a Percentage of Covered Payroll |
|------|--|---|--|---|---|
| 2016 | \$ 36,176 | \$ (36,176) | \$ - | \$ 2,142,414 | 1.69% |
| 2017 | 38,957 | (38,957) | - | 2,241,636 | 1.74% |
| 2018 | 46,264 | (46,264) | - | 1,819,244 | 2.54% |
| 2019 | 52,697 | (52,697) | - | 1,687,267 | 3.12% |

(1) The School District elected not to present information prior to 2016. The School District will continue to present information for years available until a full ten-year trend is compiled.

(2) Includes Surcharge

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

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

| | Contractually Required Contributions (2) | Contributions in Relation to the Contractually Required Contributions | Contribution Deficiency (Excess) | School District's Covered Payroll | Contributions as a Percentage of Covered Payroll |
|------|--|---|--|---|---|
| 2016 | \$ - | \$ - | \$ - | \$ 7,756,407 | 0.00% |
| 2017 | - | - | - | 8,338,064 | 0.00% |
| 2018 | - | - | - | 7,228,857 | 0.00% |
| 2019 | - | - | - | 7,473,307 | 0.00% |

(1) The School District elected not to present information prior to 2016. The School District will continue to present information for years available until a full ten-year trend is compiled.

(2) STRS allocated the entire 14% employer contribution rate toward pension benefits.

CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

Notes to Required Supplementary Information

Year Ended June 30, 2019

Note A Budgetary Basis of Accounting

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

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

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

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

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

The following tables summarize the adjustments necessary to reconcile the GAAP statements and the budgetary basis schedule:

| | | |
|--|----|------------------|
| | | <u>General</u> |
| Net change in fund balance - GAAP Basis | \$ | 300,386 |
| Increase / (decrease): | | |
| Due to inclusion of the Preschool Fund | | 49,691 |
| Due to inclusion of the Termination Benefits Fund | | 34,418 |
| Due to inclusion of the Public School Support Fund | | (9,929) |
| Due to revenues | | (342,631) |
| Due to expenditures | | 94,204 |
| Due to other sources (uses) | | (10,055) |
| Due to encumbrances | | <u>(158,473)</u> |
| Net change in fund balance - Budget Basis | \$ | <u>(42,389)</u> |

**CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
CLERMONT COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

| Federal Grantor/ Pass Through Grantor / Program Title | Federal CFDA Number | Expenditures |
|--|------------------------------------|---------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | |
| <i>Passed Through The Ohio Department of Education:</i> | | |
| Child Nutrition Cluster: | | |
| National School Breakfast Program | 10.553 | \$ 128,380 |
| National School Lunch Program | 10.555 | 279,927 |
| Non-Cash Assistance (Food Distribution) | 10.555 | 41,478 |
| Total School Lunch Program | | <u>321,405</u> |
| Total Child Nutrition Cluster | | <u>449,785</u> |
| Total U.S. Department of Agriculture | | <u>449,785</u> |
| U.S. DEPARTMENT OF EDUCATION | | |
| <i>Passed Through The Ohio Department of Education:</i> | | |
| Title I Grants to Local Educational Agencies | 84.010 | 318,695 |
| Special Education Cluster (IDEA): | | |
| Special Education Grants to States | 84.027 | 311,144 |
| Special Education Preschool Grant | 84.173 | 18,988 |
| Total Special Education Cluster (IDEA) | | <u>330,132</u> |
| Title II-A Improving Teacher Quality State Grants | 84.367 | 46,403 |
| Title IV-A Student Support and Academic Enrichment Program | 84.424 | <u>22,986</u> |
| Total – U.S. Department of Education | | <u>718,216</u> |
| Total Federal Financial Assistance | | <u>\$ 1,168,001</u> |

See the accompanying notes to the Schedule of Expenditures of Federal Awards.

**CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
CLERMONT COUNTY, OHIO**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Clermont Northeastern Local School District, Clermont County, Ohio (the District) under programs of the federal government for the year ended June 30, 2019. 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

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.

NOTE C – INDIRECT COST RATE

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D – CHILD NUTRITION CLUSTER

The District comingles 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 E – 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.

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

January 31, 2020

Clermont Northeastern Local School District
Clermont County
2792 US50
Batavia, OH 45103

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 **Clermont Northeastern Local School District**, Clermont County (the School District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 31, 2020.

Internal Control Over Financial Reporting

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

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

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

Tax - Accounting - Audit - Review - Compilation - Agreed Upon Procedure - Consultation - Bookkeeping - Payroll - Litigation Support - Financial Investigations
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Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Perry & Associates CPAs A.C." in a cursive script.

Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio



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**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**

January 31, 2020

Clermont Northeastern Local School District
Clermont County
2792 US50
Batavia, OH 45103

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited **Clermont Northeastern Local School District's** (the School 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 Clermont Northeastern Local School District's major federal program for the year ended June 30, 2019. The *Summary of Auditor's Results* in the accompanying schedule of audit findings identifies the School District's major federal program.

Management's Responsibility

The School District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the School District's compliance for the School 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 School 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 School District's major program. However, our audit does not provide a legal determination of the School District's compliance.

Tax - Accounting - Audit - Review - Compilation - Agreed Upon Procedure - Consultation - Bookkeeping - Payroll - Litigation Support - Financial Investigations
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• Ohio Society of CPAs • West Virginia Society of CPAs • Association of Certified Fraud Examiners • Association of Certified Anti-Money Laundering Specialists •

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Opinion on the Major Federal Program

In our opinion, the Clermont Northeastern 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 year ended June 30, 2019.

Report on Internal Control Over Compliance

The School 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 School 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 each 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 School 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 compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT
CLERMONT COUNTY, OHIO**

SCHEDULE OF AUDIT FINDINGS
2 CFR § 200.515
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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 CFR § 200.516(a)? | No |
| <i>(d)(1)(vii)</i> | Major Programs (list): | Special Education Cluster (IDEA): Special Education-Grants to States (IDEA, Part B) – CFDA #84.027 and Special Education-Preschool Grants (IDEA Preschool) – CFDA #84.173 |
| <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 CFR § 200.520? | Yes |

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

OHIO AUDITOR OF STATE KEITH FABER



CLERMONT NORTHEASTERN LOCAL SCHOOL DISTRICT

CLERMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 2, 2020**