

Lima City School District
Allen County, Ohio

Basic Financial Statements – Modified Cash Basis
June 30, 2019
with Independent Auditors' Report



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Board of Education
Lima City School District
755 St. Johns Ave
Lima, Ohio 45804

We have reviewed the *Independent Auditors' Report* of the Lima City School District, Allen County, prepared by Clark, Schaefer, Hackett & Co., 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 Lima City 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

January 29, 2020

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INDEPENDENT AUDITORS' REPORT

Board of Education
Lima City School District
755 St. Johns Avenue
Lima, Ohio 45804

Report on the Financial Statements

We have audited the accompanying modified cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lima City School District (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash accounting basis Note 2 describes. This responsibility includes determining that the modified cash accounting basis is acceptable for the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2019, and the respective changes in modified cash financial position thereof, and the budgetary comparison for the General fund, for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Matters*Supplementary Information*

Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards (the Schedule) as required by Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (as listed in the table of contents), is presented for purpose of additional analysis and is not a required part of the basic financial statements.

The Schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 20, 2019

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2019

	Governmental Activities
Assets:	
Equity in pooled cash and investments	\$ 26,815,054
Investments.	8,452,849
	<u>\$ 35,267,903</u>
 Net position:	
Restricted for:	
Capital projects	\$ 1,087,380
Classroom facilities maintenance	1,266,930
Debt service.	1,463,915
Locally funded programs	17,099
State funded programs.	50,726
Federally funded programs	44,636
Student activities	32,328
Food service	976,777
Unrestricted	30,328,112
	<u>30,328,112</u>
Total net position.	<u>\$ 35,267,903</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>Disbursements</u>	<u>Program Receipts</u>		
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
Instruction:				
Regular	\$ 16,474,521	\$ 1,451,230	\$ 584,865	\$ -
Special	7,585,926	353,518	5,450,357	-
Vocational	1,618,033	13,747	794,117	-
Adult/continuing.	137,238	-	141,485	-
Other	11,021,985	-	-	-
Support services:				
Pupil.	3,733,003	-	129,359	-
Instructional staff	4,998,991	-	2,047,986	-
Board of education	103,992	-	-	-
Administration.	4,055,481	-	456,364	-
Fiscal.	875,808	-	61,884	-
Business.	74,755	31,031	-	-
Operations and maintenance	6,464,040	20,008	63,383	-
Pupil transportation.	776,796	22,532	162,216	-
Central	34,601	-	16,200	-
Operation of non-instructional services:				
Food service operations	2,816,732	126,026	2,772,884	-
Other non-instructional services	1,006,020	-	889,755	-
Extracurricular activities.	1,794,663	315,655	1,980	40,000
Facilities acquisition and construction	251,966	-	-	-
Debt service:				
Principal retirement	1,689,000	-	-	-
Interest and fiscal charges	298,446	-	-	-
Total governmental activities	\$ 65,811,997	\$ 2,333,747	\$ 13,572,835	\$ 40,000

General receipts:

Property and other local taxes levied for:
General purposes
Debt service.
Permanent improvement
Maintenance of facilities
Grants and entitlements not restricted
to specific programs
Gifts and donations
Insurance proceeds
Investment earnings
Miscellaneous
Total general revenues
Change in net position
Net position at beginning of year
Net position at end of year.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Disbursements)
Receipts and Changes
in Net Position**

**Governmental
Activities**

\$ (14,438,426)
(1,782,051)
(810,169)
4,247
(11,021,985)

(3,603,644)
(2,951,005)
(103,992)
(3,599,117)
(813,924)
(43,724)
(6,380,649)
(592,048)
(18,401)

82,178
(116,265)
(1,437,028)
(251,966)

(1,689,000)
(298,446)

(49,865,415)

8,649,412
1,063,826
369,119
106,800

43,185,079
19,789
39,392
598,242
592,067

54,623,726

4,758,311

30,509,592

\$ 35,267,903

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**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2019

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and investments	\$ 23,813,731	\$ 3,001,323	\$ 26,815,054
Investments.	6,623,853	1,828,996	8,452,849
Total assets	\$ 30,437,584	\$ 4,830,319	\$ 35,267,903
 Fund balances:			
Nonspendable:			
Unclaimed funds	\$ 5	\$ -	\$ 5
Restricted:			
Debt service	-	1,463,915	1,463,915
Capital improvements	-	1,087,380	1,087,380
Classroom facilities maintenance	-	1,266,930	1,266,930
Food service operations	-	976,777	976,777
Non-public schools	-	37,834	37,834
Special education	-	44,636	44,636
District managed activities	-	49,427	49,427
Other purposes.	-	12,892	12,892
Assigned:			
Student instruction	137,297	-	137,297
Student and staff support.	352,261	-	352,261
Facilities acquisition and construction	52,880	-	52,880
School supplies	20,832	-	20,832
Unassigned (deficit)	29,874,309	(109,472)	29,764,837
Total fund balances	\$ 30,437,584	\$ 4,830,319	\$ 35,267,903

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

STATEMENT OF RECEIPTS, DISBURSMENTS, AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:			
From local sources:			
Property and other local taxes	\$ 8,649,412	\$ 1,539,745	\$ 10,189,157
Tuition	1,789,160	-	1,789,160
Transportation fees	22,277	-	22,277
Earnings on investments	562,632	36,702	599,334
Charges for services	-	126,026	126,026
Extracurricular	33,763	302,231	335,994
Classroom materials and fees	26,858	-	26,858
Rental income	20,008	13,424	33,432
Contributions and donations	59,789	8,550	68,339
Contract services	75,323	-	75,323
Miscellaneous	516,744	1,980	518,724
Intergovernmental - state	47,183,095	1,306,964	48,490,059
Intergovernmental - federal	267,210	7,989,023	8,256,233
Total receipts	<u>59,206,271</u>	<u>11,324,645</u>	<u>70,530,916</u>
Disbursements:			
Current:			
Instruction:			
Regular	16,009,558	464,963	16,474,521
Special	6,078,128	1,507,798	7,585,926
Vocational	1,511,723	106,310	1,618,033
Adult/continuing	-	137,238	137,238
Other	11,021,985	-	11,021,985
Support services:			
Pupil	3,620,855	112,148	3,733,003
Instructional staff	3,177,131	1,821,860	4,998,991
Board of education	103,992	-	103,992
Administration	3,652,955	402,526	4,055,481
Fiscal	780,731	95,077	875,808
Business	74,755	-	74,755
Operations and maintenance	5,998,464	465,576	6,464,040
Pupil transportation	757,180	19,616	776,796
Central	18,401	16,200	34,601
Operation of non-instructional services:			
Food service operations	-	2,816,732	2,816,732
Other non-instructional services	46,436	959,584	1,006,020
Extracurricular activities	1,342,301	452,362	1,794,663
Facilities acquisition and construction	203,051	48,915	251,966
Debt service:			
Principal retirement	339,000	1,350,000	1,689,000
Interest and fiscal charges	79,046	219,400	298,446
Total disbursements	<u>54,815,692</u>	<u>10,996,305</u>	<u>65,811,997</u>
Excess of receipts over disbursements	4,390,579	328,340	4,718,919
Other financing sources:			
Insurance proceeds	39,392	-	39,392
Net change in fund balances	4,429,971	328,340	4,758,311
Fund balances at beginning of year	<u>26,007,613</u>	<u>4,501,979</u>	<u>30,509,592</u>
Fund balances at end of year	<u>\$ 30,437,584</u>	<u>\$ 4,830,319</u>	<u>\$ 35,267,903</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts:				
From local sources:				
Property and other local taxes	\$ 8,974,531	\$ 8,649,412	\$ 8,649,412	\$ -
Tuition	1,753,351	1,789,200	1,789,160	(40)
Transportation fees	38,702	22,277	22,277	-
Earnings on investments	300,048	500,000	562,632	62,632
Classroom materials and fees	10,301	11,016	11,016	-
Rental income	23,002	20,008	20,008	-
Contributions and donations	40,004	43,900	43,900	-
Contract services	225,956	75,324	75,323	(1)
Miscellaneous	103,942	500,288	500,283	(5)
Intergovernmental - state	47,421,890	47,183,095	47,183,095	-
Intergovernmental - federal	323,023	267,209	267,209	-
Total receipts	59,214,750	59,061,729	59,124,315	62,586
Disbursements:				
Current:				
Instruction:				
Regular	17,163,038	16,170,334	16,114,152	56,182
Special	6,510,020	6,151,970	6,112,164	39,806
Vocational	1,719,801	1,615,350	1,614,696	654
Other	11,758,133	11,041,777	11,039,541	2,236
Support services:				
Pupil	3,879,299	3,645,648	3,642,218	3,430
Instructional staff	3,406,833	3,226,302	3,198,626	27,676
Board of education	115,593	113,534	108,529	5,005
Administration	3,920,828	3,685,753	3,681,209	4,544
Fiscal	860,948	834,698	808,332	26,366
Business	34,001	35,316	31,923	3,393
Operations and maintenance	6,631,363	6,409,951	6,226,091	183,860
Pupil transportation	860,123	808,374	807,557	817
Central	19,599	18,401	18,401	-
Operation of non-instructional services:				
Other non-instructional services	49,737	46,752	46,697	55
Extracurricular activities	1,491,838	1,415,558	1,400,665	14,893
Facilities acquisition and construction	216,268	203,051	203,051	-
Debt service:				
Principal retirement	361,066	339,000	339,000	-
Interest and fiscal charges	84,191	79,046	79,046	-
Total disbursements	59,082,679	55,840,815	55,471,898	368,917
Excess of receipts over disbursements	132,071	3,220,914	3,652,417	431,503
Other financing sources (uses):				
Refund of prior year's disbursements	160,000	262,510	262,633	123
Transfers in	-	899,809	899,809	-
Transfers (out)	-	(899,809)	(899,809)	-
Insurance proceeds	-	39,392	39,392	-
Total other financing sources (uses)	160,000	301,902	302,025	123
Net change in fund balance	292,071	3,522,816	3,954,442	431,626
Unencumbered fund balance				
at beginning of year	24,395,413	24,395,413	24,395,413	-
Prior year encumbrances appropriated	1,524,454	1,524,454	1,524,454	-
Unencumbered fund balance at end of year	\$ 26,211,938	\$ 29,442,683	\$ 29,874,309	\$ 431,626

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2019

	Private-Purpose Trust Funds	Agency
Assets:		
Equity in pooled cash and investments	\$ 288,577	\$ 62,854
Net position:		
Held in trust for scholarships	\$ 288,577	\$ -
Undistributed monies	-	838
Held for students	-	62,016
Total net position.	\$ 288,577	\$ 62,854

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY
NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Private-Purpose Trust Funds
Additions:	
Gifts and contributions	\$ 100,414
Interest	4,444
Other	5,500
	110,358
Deductions:	
Payments in accordance with Trust Agreements	61,750
	48,608
Change in net position	239,969
Net position at beginning of year	239,969
Net position at end of year	\$ 288,577

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

Lima City 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 as authorized by state statute and/or federal guidelines.

The School District was established in 1856 through the consolidation of existing land areas and school districts. The School District is the 58th largest in the State of Ohio (among 625 school districts) in terms of enrollment. It is staffed by 213 non-certificated employees and 415 certificated full-time teaching and administrative personnel who provide services to 3,620 students and other community members. The School District currently operates ten instructional/support facilities including one administrative center.

Reporting Entity

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

Parochial Schools - Within the School District boundaries, Lima Central Catholic and three elementary schools are operated by the Toledo Catholic Diocese. Current State legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial school by the Treasurer of the School District, as directed by the parochial school. The activity of these State monies is reflected in a special revenue fund for financial reporting purposes.

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 which are significant in relation to the basic financial statements of the School District.

The following entities which perform activities within the School District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities, nor are they fiscally dependent on the School District: the City of Lima and the Parent Teacher Association.

The School District is associated with three jointly governed organizations, one group purchasing pool and a related organization. These organizations include the Northwest Ohio Area Computer Services Cooperative, the West Central Ohio Regional Professional Development Center, the Northwestern Ohio Educational Research Council, Inc., the Allen County Schools Health Benefit Plan, and the Lima Public Library. These organizations are presented in Notes 13, 14 and 15 to the financial statements.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although Ohio Administrative Code Section 117-2-03 (B) requires the School District's financial report to follow generally accepted accounting principles (GAAP), the School District chooses to prepare its financial statements and notes in accordance with the modified cash basis of accounting. The School District recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

The School District also reports long-term investments as assets, valued at cost. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the governmentwide and fund financial statements versus budgetary expenditures result from encumbrances outstanding at the beginning and end of the fiscal year.

B. Basis of Presentation

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

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

The government-wide statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the School District. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the School District.

All assets and net cash position associated with the operation of the School District are included on the statement of net position.

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, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Fund Accounting

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

GOVERNMENTAL FUNDS

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The School District's major governmental fund is the General Fund.

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.

Other governmental funds of the School District are used to account for (a) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects, (b) financial resources that are restricted, committed or assigned to expenditures for principal and interest and (c) financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

FIDUCIARY FUNDS

The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. Agency funds are custodial in nature and do not involve measurement of results of operations. The School District's Trust Fund accounts for scholarships and the Agency Fund accounts primarily for various student-managed activities. Fiduciary funds are not included in the government-wide statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes the limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board.

The legal level of control has been established by the Board at the fund level for all funds. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

While the School District is reporting financial position, results of operation, and changes in fund balances on the modified cash basis fund statements, the budgetary basis as provided by law is based upon accounting for certain transactions of cash receipts, disbursements and encumbrances. The budgetary comparison statement for the General fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budgeted amounts. The adjustments necessary to reconcile modified cash and budget basis statements are as follows:

<u>Net Change in Fund Balance - General Fund</u>	
Modified cash basis	\$ 4,429,971
Encumbrances	(459,857)
Excess of funds combined with General fund for reporting purposes	<u>(15,672)</u>
Budget basis	<u>\$ 3,954,442</u>

E. Cash and Investments

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

Investments of the School District’s cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

During fiscal year 2019, investments included Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), US Treasury Notes, Federal Farmers Credit Corporation (FFCB), Money Market Funds, Commercial Paper, Negotiable Certificates of Deposits, and STAR Ohio.

**LIMA CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB) Statement No. 79, "Certain External Investment Pools and Pool Participants". The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides NAV per share that approximates fair value.

For fiscal year 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$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.

Following Ohio Statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest earnings credited to the General Fund during fiscal year 2019 was \$562,632, which included \$49,302 assigned from other School District funds.

An analysis of the School District's investment account at fiscal year-end is provided in Note 4.

F. Capital Assets

Acquisitions of property, plant, and equipment purchased are recorded as cash disbursements when paid. These items are not reflected as assets in the accompanying financial statements under the modified cash basis of accounting. Depreciation has not been reported for any capital assets.

G. Compensated Absences

Compensated absences of the School District consist of vacation leave and sick leave. Employees are entitled to cash payments for unused vacation leave and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation leave and sick leave are not reflected as liabilities under the modified cash basis of accounting.

H. Long-Term Liabilities

Modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

I. Fund Cash Balance

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

Nonspendable - The nonspendable fund cash balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

**LIMA CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Committed - The committed fund cash 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 (the highest level of decision making authority). 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 cash 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 cash 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 nor committed. In governmental funds other than the general fund, assigned fund cash balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the 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 cash 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 only used to report a deficit fund cash 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 restricted and unrestricted (committed, assigned, and unassigned) fund cash balance is available. Similarly, within unrestricted fund cash 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 cash balance classifications could be used.

J. Net Position

Net position represents cash assets held by the School District at year-end. Net position is reported as restricted when there are limitations imposed on their use either through 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 a cash disbursement is made for purposes for which both restricted and unrestricted net cash position is available. As of June 30, 2019, of the School District's \$4,939,791 restricted net position, \$0 was restricted by enabling legislation.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Interfund Activity

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

L. Pensions and Other Post-Employment Benefits (OPEB)

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

The School District recognizes the disbursement for employer contributions to cost sharing pension plans when they are paid. As described in Note 9 and 10 the employer contributions include portions for pension benefits and for postretirement health care benefits.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2019, the School District has implemented GASB Statement No. 83, "Certain Asset Retirement Obligations" and GASB Statement No. 88, "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements".

GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the School District.

GASB Statement No. 88 improves the information that is disclosed in notes to the basic financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The implementation of GASB Statement No. 88 did not have an effect on the financial statements of the School District.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at June 30, 2019 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Early Childhood Education	\$ 16,736
Adult Basic Education	374
Vocational Education - Perkins	48,530
Title I - Disadvantaged Children Grant	25,488
Title II-A Improving Teacher Quality	12,955
Miscellaneous Federal Grants	<u>5,389</u>
Total	<u>\$ 109,472</u>

The deficits in these funds occurred as a result of grant expenditures coming due prior to the School District drawing against the grant funding. All deficit balances were resolved shortly into the subsequent fiscal year when the draws against these grants were received by the School District.

C. Compliance

Ohio Administrative Code, Section 117-2-03(B), requires the School District to prepare its annual financial report in accordance with GAAP. However, the School District prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than GAAP. The accompanying financial statements omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined, and various other administrative remedies may be taken against the School District.

NOTE 4 - 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 of Education has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim 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.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the fair value of the securities subject to the repurchase agreement must exceed the principal fair 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, or legal governments;
5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;
6. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool, the State Treasury Asset Reserve of Ohio (STAR Ohio);
8. Certain banker's acceptance and commercial paper notes for a period not to exceed one-hundred-eighty day and two-hundred-seventy days, respectively, from the purchase date in an amount not to exceed forty percent of the interim monies available for investment at any one time;
9. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies;
10. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eighty days after purchase; and,
11. Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which obligations both the following apply: obligations are eligible for purchase by the Federal Reserve System and the obligations mature no later than one hundred eighty days after purchase.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

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.

A. Cash on Hand

At fiscal year end, the School District had \$200 in undeposited cash on hand which is included on the Statement of Assets and Fund Balances of the School District as part of "Equity in Pooled Cash and Investments".

B. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, the carrying amount of the School District's deposits was \$3,472,632, and the bank balance was \$4,437,882. Of the bank balance, \$2,527,115 was covered by federal depository insurance and \$1,910,767 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging institutions trust department or agent, but not in the name of the School District. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law required that deposits be either insured or be protected by:

Eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured;

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayments of all public monies deposited in financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

The School District's investments are categorized below to give an indication of the level of risk assumed by the School District at fiscal year-end.

Investment type	Carrying Value	Fair Value	Investment Maturities		% of Portfolio	Credit Rating S&P
			Less than 1 year	1 to 5 years		
Commercial paper	\$ 2,211,504	\$ 2,223,955	\$ 2,223,955	\$ -	6.90%	A-1
Negotiable CDs	3,447,429	3,476,774	493,698	2,983,076	10.78%	N/A
FNMA	3,647,161	3,650,850	409,336	3,241,514	11.32%	AA+
FFCB	1,134,627	1,146,313	-	1,146,313	3.56%	AA+
FHLB	5,242,039	5,271,614	3,054,581	2,217,033	16.35%	AA+
U.S. treasury notes	1,106,392	1,111,342	1,111,342	-	3.45%	N/A
Money market funds	16,257	16,257	16,257	-	0.05%	N/A
STAR Ohio	15,341,093	15,341,093	15,341,093	-	47.59%	AAAm
Total	\$ 32,146,502	\$ 32,238,198	\$ 22,650,262	\$ 9,587,936		

The School District uses the modified cash basis of accounting and records all investments at cost rather than at fair value.

Interest Rate Risk: The School District does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. In practice, the School District manages its exposure to declines in fair values by limiting the maximum maturity of its investment to five years.

Credit Risk: The School District limits their investments to securities issued by Federal Agencies, Commercial Paper, US Treasury Money Market Funds and STAR Ohio.

Concentration of Credit Risk: The School District's investment policy allows investments in Repurchase Agreements, US Government Securities and Instrumentalities, Commercial Paper, Money Market Mutual Funds and STAR Ohio and allowable investments as defined by Ohio Revised Code Sections 133 and 135.

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

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Reconciliation of Cash to the Statement of Net Position

The following is a reconciliation of cash as reported in the note disclosure above to cash as reported on the statement of net position as of June 30, 2019:

<u>Cash and investments per note disclosure</u>	
Carrying amount of deposits	\$ 3,472,632
Investments	32,146,502
Cash on hand	<u>200</u>
Total	<u>\$ 35,619,334</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 35,267,903
Private-purpose trust fund	288,577
Agency fund	<u>62,854</u>
Total	<u>\$ 35,619,334</u>

E. Fair Value Measurement

The fair value of the School District's investments, presented above, are classified according to the following hierarchy:

Level 1 – Investments reflect prices quoted in active markets.

Level 2 – Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.

Level 3 – Investments reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the transparency of the instrument and should not be perceived as the particular investment's risk. The School District had the following reoccurring fair value measurements as of June 30, 2019:

<u>Investment type</u>	<u>Fair Value</u>	<u>Identical Assets (Level 1)</u>	<u>Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
Commercial paper	\$ 2,223,955	\$ -	\$ 2,223,955	\$ -
Negotiable CDs	3,476,774	-	3,476,774	-
FNMA	3,650,850	-	3,650,850	-
FFCB	1,146,313	-	1,146,313	-
FHLB	5,271,614	-	5,271,614	-
U.S. treasury notes	<u>1,111,342</u>	<u>-</u>	<u>1,111,342</u>	<u>-</u>
Total	<u>\$ 16,880,848</u>	<u>\$ -</u>	<u>\$ 16,880,848</u>	<u>\$ -</u>

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 5 - 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 tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real property and public utility property. Real property tax receipts received in calendar year 2019 represent the collection of calendar year 2018 taxes. Real property taxes received in calendar year 2019 were levied after April 1, 2018, on the assessed values as of January 1, 2018, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised fair value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax receipts received in calendar year 2019 represent the collection of calendar year 2018 taxes. Public utility real and personal property taxes received in calendar year 2019 became a lien on December 31, 2017, were levied after April 1, 2018, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The School District receives property taxes from Allen 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 of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

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

	2018 Second Half Collections		2019 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 265,566,610	92.37	\$ 269,125,700	92.62
Public utility personal	<u>21,921,790</u>	<u>7.63</u>	<u>21,445,770</u>	<u>7.38</u>
Total	<u>\$ 287,488,400</u>	<u>100.00</u>	<u>\$ 290,571,470</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 47.55		\$ 47.99	

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 6 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. During fiscal year 2019, the School District contracted with The Midwestern Indemnity Co. for property, general liability and business personal property insurance. Limits for these coverages are \$179,536,860, \$1,000,000 each occurrence and \$2,000,000 general aggregate limit and \$23,450,000, respectively. Professional liability is protected by the Midwestern Indemnity Co. with \$1,000,000 each occurrence, \$1,000,000 aggregated limit.

Vehicles are covered by The Midwestern Indemnity Company and have a \$1,000 deductible for comprehensive and collisions. Automobile liability has a \$1,000,000 combined single limit of liability. Public officials' bond insurance is provided by American States Insurance Company for a total of \$140,000.

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

B. Workers' Compensation

The School District provided Workers' Compensation for its employees. The firm of Sheakley Uniservice, Inc. served as our third-party administrator (TPA) and provided administrative, cost control, assistance with safety programs and actuarial services to the School District. Comp Management served as our medical care organization (MCO) and handled our medical claims.

C. Health Insurance

The School District participates in the Allen County Schools Health Benefit Plan (the "Plan"), a public entity shared risk pool consisting of some of the school districts within Allen County. The School District pays monthly premiums to the Plan for employee medical and dental benefits. The Plan is responsible for the management and operations of the program. Upon withdrawal from the Plan, a participant is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - LONG-TERM DEBT OBLIGATIONS

Under the modified cash basis of accounting, debt obligations are not reported as a liability in the accompanying basic financial statements. During fiscal year 2019, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/18</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/19</u>	Amounts Due in <u>One Year</u>
General Obligation Bonds:					
Various Purpose GO Bonds - 2000					
Serial and Term Bonds - 5-6%	\$ 60,000	\$ -	\$ -	\$ 60,000	\$ -
Refunding GO Bonds - 2012A					
Serial Bonds - 1.5-3%	3,035,000	-	(275,000)	2,760,000	-
Capital Appreciation Bonds - 21.51%	94,970	-	-	94,970	62,076
Refunding GO Bonds - 2015					
Serial Interest Bonds - 1.25-3.0%	5,600,000	-	(1,075,000)	4,525,000	1,085,000
Energy Conservation GO Bonds - 2015					
Serial Interest Bonds - 2.211%	2,030,000	-	(235,000)	1,795,000	240,000
Lease-Purchase Agreement - 2013					
Stadium Renovations - 3.2%	<u>1,199,000</u>	<u>-</u>	<u>(104,000)</u>	<u>1,095,000</u>	<u>108,000</u>
Total long-term obligations	<u>\$ 12,018,970</u>	<u>\$ -</u>	<u>\$ (1,689,000)</u>	<u>\$ 10,329,970</u>	<u>\$ 1,495,076</u>

Ohio School Facilities Loan - On December 3, 1999, the School District and the Ohio School Facilities Commission entered into a school facilities agreement pursuant to Ohio Revised Code Section 3318.08 for construction and improvements to its facilities under the State's "Classroom Facilities Program." Under this program, the School District entered into an agreement with the State of Ohio in which the State paid for a portion of the estimated project costs.

The total budget for the project was \$104,029,247, of which \$92,663,247 was awarded in school facilities monies and \$11,366,000 was the School District's share of the project. The School District issued bonds which are being repaid from the proceeds of a tax levy. An additional property tax levy of one-half mill levy was levied for a twenty-three-year period to maintain the facilities. If the School District's three-year average adjusted valuation per pupil increases above the state-wide median three-year adjusted valuation per pupil, the School District may become responsible for repayment of a portion of the State's contribution. Based on the School District's adjusted valuation relative to the state-wide median adjusted valuation, this possibility appears remote. This debt is not reflected in the general long-term obligations schedule above.

School Improvement Advance Refunding Bonds - On March 1, 2012, the School District issued \$4,125,000 in serial bonds and \$94,970 in capital appreciation bonds to provide resources to provide resources to purchase U.S. Government Securities that were placed in an irrevocable trust for the purpose of generating resources for the advance refunding of \$4,220,000 School Improvement Bonds dated October 22, 2003 and maturing on December 1, 2028. The bonds were issued for a seventeen-year period with final maturity of December 1, 2028.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - LONG-TERM OBLIGATIONS - (Continued)

These general obligation serial bonds issued on March 1, 2012, due December 1, 2028, are subject to prior redemption. Serial bonds maturing on or after December 1, 2022 are subject to prior redemption by and at the sole option of the School District either in whole or in part (as selected by the Board and in whole multiples of \$5,000), on any date on or after December 1, 2021 at a redemption price equal to 100% of the principal amount redeemed, plus accrued interest to the redemption date. The capital appreciation bonds are not subject to redemption prior to scheduled maturity. The capital appreciation bonds will mature in fiscal years 2020 and 2021. The maturity amount of the bonds is \$495,000. However, under the modified cash basis of accounting, the outstanding balance in the schedule of changes in general long-term obligations is recorded at the original issue amount and no accretion is reported. The bonds are being retired from the debt service fund (a nonmajor governmental fund).

General Obligation Advance Refunding Bonds - On August 5, 2015, the School District issued \$6,660,000 in serial bonds to provide resources that were used to advance refund \$6,780,000 of the outstanding Various Purpose Bonds dated November 10, 2005. These funds were deposited in an Escrow Fund (the 2015 Unvoted Bonds Escrow Fund) held by The Huntington National Bank (the Escrow Agent), pursuant to an Escrow Agreement between the School District and the Escrow Agent dated as of August 24, 2015 (the 2015 Unvoted Bonds Escrow Agreement). The bonds were issued for a seven-year period with final maturity December 1, 2022. The bonds are being retired from the debt service fund (a nonmajor governmental fund) and, are not subject to redemption prior to scheduled maturity.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2019 are shown below. Principal for capital appreciation bonds are shown at issuance value, however the full maturity of these bonds is the total of principal and accreted interest.

Fiscal Year Ended	Serial and Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 1,085,000	\$ 199,094	\$ 1,284,094	\$ 62,076	\$ 237,924	\$ 300,000
2021	1,210,000	171,450	1,381,450	32,894	162,106	195,000
2022	1,445,000	131,625	1,576,625	-	-	-
2023	1,555,000	85,725	1,640,725	-	-	-
2024	315,000	56,775	371,775	-	-	-
2025 - 2029	<u>1,735,000</u>	<u>133,275</u>	<u>1,868,275</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 7,345,000</u>	<u>\$ 777,944</u>	<u>\$ 8,122,944</u>	<u>\$ 94,970</u>	<u>\$ 400,030</u>	<u>\$ 495,000</u>

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - LONG-TERM OBLIGATIONS - (Continued)

House Bill 264 Energy Conservation Improvement Bonds - On September 14, 2015, the School District issued bonds for the purpose of energy conservation improvements at School District facilities. Interest is due and payable semi-annually on June 1 and December 1, commencing on June 1, 2016. Principal is due and payable on December 1, commencing on December 1, 2016. Final maturity is December 1, 2025 with a stated interest rate of 2.211%. The energy conservation improvement bonds are being retired from the general fund.

Principal and interest requirements to retire energy conservation improvement bonds outstanding at June 30, 2019 are shown below.

Fiscal Year Ended	Energy Conservation Improvement		
	Principal	Interest	Total
2020	\$ 240,000	\$ 37,034	\$ 277,034
2021	245,000	31,673	276,673
2022	250,000	26,200	276,200
2023	255,000	20,617	275,617
2024	265,000	14,869	279,869
2025 - 2026	<u>540,000</u>	<u>12,050</u>	<u>552,050</u>
Total	<u>\$ 1,795,000</u>	<u>\$ 142,443</u>	<u>\$ 1,937,443</u>

Lease-Purchase Agreement - Stadium Renovations - On April 9, 2013, the School District entered into a ground lease with a financial institution for the High School athletic stadium for \$100 through December 1, 2032. Simultaneously, the two parties entered into a contract to lease the property to the School District, including existing and new improvements made upon the property.

To facilitate the new improvements to the property called for within the agreement, an escrow agreement was also entered into wherein the financial institution was required to deposit \$1,600,000 and the School District was required to deposit \$420,000. The School District has the responsibility to authorize disbursements from the escrow account. Any funds remaining in the escrow account upon completion of the improvements will be used to prepay base rent payments called for under the facilities agreement. Annual rental payments are contingent upon being annually appropriated by the School District and are scheduled to end on December 1, 2027. Upon final payment of all scheduled rent payments, ownership of property reverts back to the School District. The lease-purchase agreement is being retired from the general fund.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - LONG-TERM OBLIGATIONS - (Continued)

Principal and interest components of the scheduled base rent payments outstanding at June 30, 2019 are shown below:

Fiscal Year Ended	Lease-Purchase Agreement		
	Principal	Interest	Total
2020	\$ 108,000	\$ 33,520	\$ 141,520
2021	111,000	29,994	140,994
2022	114,000	26,372	140,372
2023	117,000	22,653	139,653
2024	121,000	18,821	139,821
2025 - 2028	<u>524,000</u>	<u>34,390</u>	<u>558,390</u>
Total	<u>\$ 1,095,000</u>	<u>\$ 165,750</u>	<u>\$ 1,260,750</u>

Legal Debt Margin - The Ohio Revised Code provides that voted net general obligation debt of the School District shall never exceed 9% of the total assessed valuation of the School District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the School District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the School District. The assessed valuation used in determining the School District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the School District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2019, are a voted debt margin of \$20,270,347 (including available funds of \$1,463,915) and an unvoted debt margin of \$290,571.

NOTE 8 - COMPENSATED ABSENCES

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

NOTE 9 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

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.

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

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

Plan Description - School Employees Retirement System (SERS)

Plan Description - The 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:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full benefits	Age 65 with 5 years of services credit; or Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially reduced benefits	Age 60 with 5 years of service credit; or 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 years of service; 2.2% for the first thirty 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.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Effective January 1, 2018, SERS cost-of-living adjustment (COLA) changed from a fixed 3% annual increase to one based on the Consumer Price Index (CPI-W) with a cap of 2.5% and a floor of 0%. SERS also has the authority to award or suspend the COLA, or to adjust the COLA above or below CPI-W. SERS suspended the COLA increases for 2018, 2019 and 2020 for current retirees, and confirmed their intent to implement a four-year waiting period for the state of a COLA for future retirees.

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% of the employer contribution rate was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$1,004,199 for fiscal year 2019.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - Licensed teachers 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 website 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. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. 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.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - 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 the remaining 2% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment 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 plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit to 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 fiscal year 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 \$3,395,417 for fiscal year 2019.

Net Pension Liability

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.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.22007990%	0.20642992%	
Proportion of the net pension liability current measurement date	<u>0.21691530%</u>	<u>0.20389536%</u>	
Change in proportionate share	<u>-0.00316460%</u>	<u>-0.00253456%</u>	
Proportionate share of the net pension liability	\$ 12,423,141	\$ 44,832,012	\$ 57,255,153

Actuarial Assumptions - SERS

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

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

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

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

Wage inflation	3.00%
Future salary increases, including inflation COLA or ad hoc COLA	3.50% to 18.20%
	2.50%, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement
Investment rate of return	7.50% net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

For 2018, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates. Mortality among disabled members was 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 most recent experience study was completed for the five-year period ended June 30, 2015.

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

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

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

Discount Rate - The total pension liability was calculated using the discount rate of 7.50%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50%). 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.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50%, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%), or one percentage point higher (8.50%) 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	\$ 17,498,931	\$ 12,423,141	\$ 8,167,431

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation is presented below:

	July 1, 2018
Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment rate of return	7.45%, net of investment expenses, including inflation
Payroll increases	3.00%
Cost-of-living adjustments (COLA)	0.0%, effective July 1, 2017

For the July 1, 2018, actuarial valuation, 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. Post-retirement disabled 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. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

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	<u>100.00 %</u>	

*10-Year 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.

**The Target Allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

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. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 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	\$ 65,471,251	\$ 44,832,012	\$ 27,363,696

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2018, two (2) members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 10 – POSTEMPLOYMENT BENEFITS

Net OPEB Liability/Asset

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 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 and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability/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.

**LIMA CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14% 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, this 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 \$132,542.

The surcharge added to the 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 \$169,735 for fiscal year 2019.

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.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14% of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

Net OPEB Liability/Asset

The net OPEB liability/asset was measured as of June 30, 2018, and the total OPEB liability/asset 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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.22213920%	0.20642990%	
Proportion of the net OPEB liability/asset current measurement date	<u>0.22015370%</u>	<u>0.20389536%</u>	
Change in proportionate share	<u>-0.00198550%</u>	<u>-0.00253454%</u>	
Proportionate share of the net OPEB liability	\$ 6,107,658	\$ -	\$ 6,107,658
Proportionate share of the net OPEB asset	\$ -	\$ 3,276,390	\$ 3,276,390

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.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

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

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

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
Investment rate of return	7.50% net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.62%
Prior measurement date	3.56%
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.70%
Prior measurement date	3.63%
Medical trend assumption:	
Medicare	5.375 to 4.75%
Pre-Medicare	7.25 to 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. RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years.

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

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50%, 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.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

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

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

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 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 the System 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 the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62%, 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. A municipal bond rate of 3.56% was used as of June 30, 2017. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
School District's proportionate share of the net OPEB liability	\$ 7,411,163	\$ 6,107,658	\$ 5,075,527

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

	1% Decrease (6.25 % decreasing to 3.75 %)	Current Trend Rate (7.25 % decreasing to 4.75 %)	1% Increase (8.25 % decreasing to 5.75 %)
School District's proportionate share of the net OPEB liability	\$ 4,927,760	\$ 6,107,658	\$ 7,670,056

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation, compared with July 1, 2017, are presented below:

	July 1, 2018	July 1, 2017
Inflation	2.50%	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65	12.50% at age 20 to 2.50% at age 65
Investment rate of return	7.45%, net of investment expenses, including inflation	7.45%, net of investment expenses, including inflation
Payroll increases	3.00%	3.00%
Cost-of-living adjustments (COLA)	0.00%	0.00%, effective July 1, 2017
Discounted rate of return	7.45%	N/A
Blended discount rate of return	N/A	4.13%
Health care cost trends		6 to 11% initial, 4.50% ultimate
	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%

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

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50% 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.

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.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

Assumption Changes Since the Prior Measurement Date - 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, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB). Valuation year per capita health care costs were updated.

Benefit Term Changes Since the Prior Measurement Date - The subsidy multiplier for non-Medicare benefit recipients was increased from 1.90% 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.

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	<u>100.00 %</u>	

*10-Year 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.

** The Target Allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

Discount Rate - The discount rate used to measure the total OPEB asset was 7.45% as of June 30, 2018. A discount rate used to measure the total OPEB liability was 4.13% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45% was used to measure the total OPEB asset as of June 30, 2018.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 10 - POSTEMPLOYMENT BENEFITS - (Continued)

Sensitivity of the School District's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45%, as well as what the net OPEB asset 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 assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's proportionate share of the net OPEB asset	\$ 2,808,173	\$ 3,276,390	\$ 3,669,904

	1% Decrease	Current Trend Rate	1% Increase
School District's proportionate share of the net OPEB asset	\$ 3,647,690	\$ 3,276,390	\$ 2,899,306

NOTE 11 - ENCUMBRANCES

At year end, the School District had the following amounts encumbered for future purchase obligations:

Fund	Encumbrances
General fund	\$ 460,691
Nonmajor governmental funds	313,805
Total	\$ 774,496

NOTE 12 - SET-ASIDES

The School District is required by State law to annually set-aside certain general fund cash receipt amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year end. This amount must be carried forward to be used for the same purpose in future years. Disbursements and other applicable offsets exceeding the set-aside requirement may not be carried forward to the next fiscal year.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 12 - SET-ASIDES - (Continued)

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

	<u>Capital Acquisition</u>
Set-aside balance June 30, 2018	\$ -
Current year set-aside requirement	624,628
Current year qualifying disbursements	(612,705)
Current year offsets	<u>(538,714)</u>
Total	<u>\$ (526,791)</u>
Balance carried forward to fiscal year 2020	<u>\$ -</u>
Set-aside balance June 30, 2019	<u><u>\$ -</u></u>

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative (NOACSC) - The School District is a participant in NOACSC which is a computer consortium. NOACSC is an association of public school districts within the boundaries of Allen, Putnam, Mercer, Hancock, Van Wert, and Paulding Counties and Cities of Wapakoneta and St. Marys. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. Financial information can be obtained from Ray Burden, who serves as director, at 645 South Main Street, Lima, Ohio 45804.

West Central Ohio Regional Professional Development Center (the "Center") - The Center is a jointly governed organization among the school districts located in Allen, Auglaize, Hancock, Hardin, Mercer, Paulding, Putnam and Van Wert counties. The jointly governed organization was formed for the purpose of establishing an articulated, regional structure for professional development, in which school districts, the business community, higher education and other groups cooperatively plan and implement effective professional development activities than are tied directly to school improvement, and in particular, to improvements in instructional programs. The Center is governed by a board made up of fifty-two representatives of the participating school districts, the business community, and two institutions of higher learning whose term rotates every two years. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information may be obtained by contacting Greg Spiess, Treasurer, Hancock County Educational Service Center, 7746 County Road 140, Findlay, Ohio 45840-3087.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS - (Continued)

Northwestern Ohio Educational Research Council, Inc. (NOERC) - NOERC is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two School Districts, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., 441 East Market Street, Celina, Ohio 45822.

NOTE 14 - GROUP PURCHASING POOL

Allen County Schools Health Benefit Plan - The School District participates in the Allen County Schools Health Benefit Plan (the Trust), a public entity shared risk pool consisting of the school districts within Allen County. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts.

Each participating school district's superintendent is appointed to a Board of Trustees which advises the Trustee, Grossman Consulting, concerning aspects of the administration of the Trust. Each school district decides which plans offered to the Board of Education will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Board of Trustees and payment of the monthly premiums.

Financial information can be obtained from Steve Arnold, who serves as Chairman, at the Allen County School District, 1920 Slabtown Road, Lima, Ohio 45804.

NOTE 15 - RELATED ORGANIZATION

Lima Public Library - The Lima Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Lima City School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the School District for operational subsidies. Although the School District serves as the taxing authority, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Lima Public Library, Scott Shafer, Clerk/Treasurer, 650 West Market Street, Lima, Ohio 45801.

**LIMA CITY SCHOOL DISTRICT
ALLEN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 16 - CONTINGENCIES

A. Grants

The School District receives significant financial assistance from numerous federal and State agencies in the form of grants. The expenditures 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 School District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the School District at June 30, 2019.

B. Litigation

The School District is a party to legal proceedings. At this time, it is the opinion of the School District that the ultimate disposition of claims will not have a material effect on the financial position of the School District.

C. State 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. Based on enrollment adjustments completed to date by ODE, the District's State Foundation revenue will be reduced by \$96,244 in fiscal year 2020.

NOTE 17 - TAX ABATEMENTS ENTERED INTO BY OTHER GOVERNMENTS

Other governments have entered into property tax abatement agreements with property owners under the Ohio Community Reinvestment Area ("CRA") program with the taxing districts of the School District. The CRA program is a direct incentive tax exemption program benefiting property owners who renovate or construct new buildings. Under this program, the other governments designated areas to encourage revitalization of the existing housing stock and the development of new structures. Within the taxing districts of the School District, the City of Lima has entered into such agreements. Under these agreements, the School District's property taxes were reduced by \$109,381. The District is not receiving any amounts from these other governments in association with the forgone property tax revenue.

Lima City School District
Allen County
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2019

Federal Agency/ Pass Through Agency/ Program Title	Federal CFDA Number	Fiscal Year	Pass Through Identifying Number	Receipts	Disbursements
U.S. Department of Agriculture:					
<i>Passed through Ohio Department of Education:</i>					
<u>Nutrition Cluster:</u>					
Non-Cash Assistance (Food Distribution):					
National School Breakfast Program	10.553	2019		\$ 72,455	\$ 72,455
National School Lunch Program	10.555	2019		146,921	146,921
Cash Assistance:					
National School Breakfast Program	10.553	2019		846,691	846,691
National School Lunch Program	10.555	2019	182OH062N1099	1,716,876	1,716,876
Summer Food Service Lunch Program	10.559	2019		63,190	63,190
Total Nutrition Cluster				<u>2,846,133</u>	<u>2,846,133</u>
Child and Adult Care Food Program (School Snacks)	10.558	2019	182OH062N2020	3,119	3,119
Fresh Fruit and Vegetable Program	10.582	2019	182OH062L1603	<u>92,396</u>	<u>92,396</u>
Total US Department of Agriculture				<u>2,941,648</u>	<u>2,941,648</u>
U.S. Department of Education:					
<i>Passed through Ohio Department of Education:</i>					
Adult Education Basic Grants to States	84.002	2019	V002A180036	228,223	228,597
		2018	V002A170036	<u>33,186</u>	<u>24,965</u>
Total Adult Education Basic Grants to States				261,409	253,562
Title I, Part A:					
Title I Grants to Local Education Agencies	84.010	2019	S010A180035	2,391,714	2,415,494
		2018	S010A170035	<u>445,706</u>	<u>442,119</u>
Total Title I Grants to Local Education Agencies				2,837,420	2,857,613
School Improvement Subsidy A	84.010	2019	S010A180035	58,047	59,782
		2018	S010A170035	<u>295,431</u>	<u>47,968</u>
Total School Improvement Subsidy A				<u>353,478</u>	<u>107,750</u>
Total Title I, Part A				3,190,898	2,965,363
<u>Special Education Cluster:</u>					
Special Education Grants to States	84.027	2019	H027A180111	889,297	844,675
		2018	H027A170111	<u>302,223</u>	<u>144,555</u>
Total Special Education Grants to States				1,191,520	989,230
Special Education Preschool Grants	84.173	2019	H173A180119	30,019	30,004
		2018	H173A170119	9,028	7,767
Special Education Preschool Grants - Restoration Grant		2019	H173180119	<u>11,601</u>	<u>11,601</u>
Total Special Education Preschool Grants				<u>50,648</u>	<u>49,372</u>
Total Special Education Cluster				1,242,168	1,038,602
Career Educational Grants to States	84.048	2019	V048A180035	58,176	106,705
		2018	V048A170035	<u>65,082</u>	<u>49,770</u>
Total Career Educational Grants to States				123,258	156,475
Education of Homeless Children and Youth	84.196	2018	H196A180036	6,409	1,729
SPDG Literacy	84.323	2019	H323A170026	4,224	8,567

(Continued)

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

Lima City School District
 Allen County
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2019
 (Continued)

Federal Agency/ Pass Through Agency/ Program Title	Federal CFDA Number		Pass Through Identifying Number	Receipts	Disbursements
U.S. Department of Education: (continued)					
<i>Passed through Ohio Department of Education: (continued)</i>					
Supporting Effective Instruction State Grants	84.367	2019	S367A180034	235,435	248,389
		2018	S367A170034	<u>50,956</u>	<u>45,632</u>
Total Supporting Effective Instruction State Grants				286,391	294,021
Student Support and Academic Enrichment Program	84.424	2019	S424A180036	128,142	129,190
		2018	S424A170036	<u>23,501</u>	<u>6,943</u>
Total Supporting Effective Instruction State Grants				151,643	136,133
<i>Passed through Auglaize County Educational Service Center:</i>					
English Language Acquisition Grants	84.365	2019	S365A180035	<u>2,918</u>	<u>2,918</u>
Total English Language Acquisition Grants				<u>2,918</u>	<u>2,918</u>
Total U.S. Department of Education				<u>5,269,318</u>	<u>4,857,370</u>
Total Federal Assistance				<u>\$ 8,210,966</u>	<u>\$ 7,799,018</u>

(Concluded)

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

1. Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Lima City School District (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 financial position, or cash flows of the District.

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

3. Food Commodities Program:

Non-monetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2019, the District had no significant food commodities in inventory.

4. Matching Requirements:

Certain federal programs require the District to contribute non-federal funds (matching funds) to support federally-funded programs. The District has complied with the matching requirements. The expenditure of non-federal (matching) funds is not included on the Schedule.

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

Board of Education
Lima City School District
755 St. Johns Avenue
Lima, Ohio 45804

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lima City School District (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 20, 2019, wherein we noted the District has prepared its financial statements on a modified cash accounting basis, which is a basis other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2019-001.

District's Responses to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 20, 2019

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Education
Lima City School District
755 St. Johns Avenue
Lima, Ohio 45804

Report on Compliance for Each Major Federal Program

We have audited the Lima City School District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

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

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

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

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

Clark, Schaefer, Hackett & Co.

Springfield, Ohio
December 20, 2019

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weakness(es)?	None noted
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weakness(es)?	None noted

Type of auditors’ report issued on compliance for major programs:	Unmodified
Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)?	None noted

Identification of major programs:

- Special Education Cluster:
 - CFDA 84.027 – Special Education Grants to States
 - CFDA 84.173 – Special Education Preschool Grants
- Nutrition Cluster:
 - CFDA 10.553 – National School Breakfast Program
 - CFDA 10.555 – National School Lunch Program
 - CFDA 10.559 – Summer Food Service Program for Children

Dollar threshold to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

2019-001: Reporting Annual Financial Statements

Condition: The District's annual financial statements follow a comprehensive accounting basis other than accounting principles generally accepted in the United States of America (GAAP).

Criteria: Ohio Administrative Code Section 117-2-3(B) requires the District to prepare its annual financial report in accordance with GAAP.

Effect: Pursuant to Ohio Rev. Code Section 117.38 the District may be fined and subject to various other administrative remedies for its failure to file the required financial report in accordance with GAAP.

Cause: Due to current economic issues, the District elected to prepare and submit its annual financial report on the cash basis of accounting as a means to realize savings in accounting and auditing fees on an annual basis. The accompanying financial statements and notes omit material assets, deferred outflow of resources, liabilities, deferred inflows of resources, fund equities, and disclosures that, while material, cannot be determined at this time.

Recommendation: We recommend the District further consider reporting its annual financial report in accordance with GAAP to include all assets, liabilities and disclosures to provide a complete presentation of its financial status.

Management Response: The School District officials do not believe that preparing financial statements in accordance with generally accepted accounting principles is cost beneficial.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None noted



District's Schedule of Prior Audit Findings

Finding 2018-001: Report Annual Financial Statements

The District's annual financial statements follow a comprehensive accounting basis other than accounting principles generally accepted in the United States of America (GAAP). Ohio Administrative Code Section 117-2-3(B) requires the District to prepare its annual financial report in accordance with GAAP.

Status: Uncorrected – See audit finding 2019-001.

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District's Corrective Action Plan

Finding 2019-001: Reporting Annual Financial Statements

Contact Person: Shelly Reiff, Treasurer

Corrective Action: Lima City Schools prepares an Other Comprehensive Basis of Accounting (OCBOA) report which incorporates the reporting format required by Government Accounting Standards Board Statement No. 34. An OCBOA report is accepted by the American Institute of Certified Public Accountants. Board Resolution number 118-03 gave the fiscal officer permission to prepare OCBOA statements because they are more cost beneficial.

Completion Date: The District will review the process annually, in conjunction with the preparation of the financial statements.



OHIO AUDITOR OF STATE KEITH FABER



LIMA CITY SCHOOL DISTRICT

ALLEN 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
FEBRUARY 11, 2020**