CENTERBURG LOCAL SCHOOL DISTRICT
KNOX COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2018

OHIO AUDITOR OF STATE
**KEITH FABER**

January 24, 2019

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 14, 2019. Reports completed prior to that date contain the signature of my predecessor.

Keith Faber
Auditor of State
Columbus, Ohio

**CENTERBURG LOCAL SCHOOL DISTRICT**
**KNOX COUNTY**
**JUNE 30, 2018**

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## INDEPENDENT AUDITOR'S REPORT

Centerburg Local School District
Knox County
119 South Preston Street
Centerburg, Ohio 43011

To the Board of Education:

***Report on the Financial Statements***

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Centerburg Local School District, Knox County, Ohio (the School District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

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

***Auditor's Responsibility***

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

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

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

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### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Centerburg Local School District, Knox County, Ohio, as of June 30, 2018, and the respective changes in cash financial position and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

### ***Accounting Basis***

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

### ***Other Matters***

*Other Information*

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2019, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Dave Yost

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

January 10, 2019

The discussion and analysis of Centerburg Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the School District's financial performance.

## Financial Highlights

Key financial highlights for fiscal year 2018 are as follows:

- In fiscal year 2017, the School District was successful in passing a bond issue for security improvements, technology updates, and the addition of a greenhouse for the vocational agriculture. Construction of all three is over halfway complete and is progressing on schedule as planned.

- The School District negotiated a two-year certified contract, with a 2 percent base increase to the salary schedules, in addition to modifying the schedule to begin at step 5 and remain at step 5 for the first 5 years.

- Foundation funding, income tax and property tax revenues continue to grow, and the area is experiencing the benefit of the explosive growth in both population and industry/entertainment in the central Ohio area.

- The School District continued to diligently monitor both receipts and disbursements in order to prudently manage the resources needed to educate students.

## Using these Basic Financial Statements

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

## Reporting the School District as a Whole

*Statement of Net Position and Statement of Activities*

The statement of net position and the statement of activities reflect how the School District did financially during fiscal year 2018, within the limitations of cash basis accounting. The statement of net position presents the cash balances and investments of the governmental activities of the School District at fiscal year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts and interest are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

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

In the statement of net position and the statement of activities, all School District activities are classified as governmental. Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance, pupil transportation, operation of food service and extracurricular activities.

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

*Fund Financial Statements*

The analysis of the School District's major funds begins on page 10. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund, the bond retirement debt service fund, and the facilities improvement capital projects fund.

*Governmental Funds*

Most of the School District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the School District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the School District's programs. The School District's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The School District's major governmental funds are the general, bond retirement, and facilities improvement funds. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

*Proprietary Funds*

The School District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District's internal service fund accounts for medical and prescription self-insurance.

*Fiduciary Funds*

Fiduciary funds are used to account for resources held for the benefits of the parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs.

**The School District as a Whole**

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

**Table 1**
**Net Position**
**Governmental Activities**

| | 2018 | 2017 | Change |
|---|---|---|---|
| **Assets** | | | |
| Equity in Pooled Cash and Cash Equivalents | $8,578,392 | $8,384,801 | $193,591 |
| Cash and Cash Equivalents with Fiscal Agents | 492,570 | 711,644 | (219,074) |
| *Total Assets* | 9,070,962 | 9,096,445 | (25,483) |
| **Net Position** | | | |
| Restricted for: | | | |
| Capital Projects | 1,712,042 | 2,141,099 | (429,057) |
| Debt Service | 862,079 | 886,776 | (24,697) |
| Other Purposes | 187,529 | 222,606 | (35,077) |
| Unrestricted | 6,309,312 | 5,845,964 | 463,348 |
| *Total Net Position* | $9,070,962 | $9,096,445 | ($25,483) |

The School District's net position in fiscal year 2018 decreased slightly from fiscal year 2017. This decrease was due to a decrease in receipts and an increase in disbursements, primarily increases in instruction and capital outlay disbursements. The decrease in receipts was mainly due to the bond issuance in the prior fiscal year, despite increases in several other receipts, such as charges for services and sales, operating grants and contributions, property taxes, and investment earnings. The increase in instruction expense was due to an increase in base salaries, while the increase in capital outlay was due to continued spending of bond proceeds for school facilities improvements. The chart on the following page provides more detail on receipts and disbursements.

Table 2 shows the changes in net position for fiscal year 2018 compared to fiscal year 2017 on a cash basis:

**Table 2**
**Changes in Net Position**
**Governmental Activities**

| | 2018 | 2017 | Change |
|---|---|---|---|
| **Receipts** | | | |
| Program Receipts: | | | |
| Charges for Services and Sales | $939,341 | $819,828 | $119,513 |
| Operating Grants and Contributions | 1,162,797 | 1,082,644 | 80,153 |
| Capital Grants and Contributions | 9,755 | 10,133 | (378) |
| Total Program Receipts | 2,111,893 | 1,912,605 | 199,288 |
| General Receipts: | | | |
| Property Taxes | 3,571,946 | 3,452,043 | 119,903 |
| Income Taxes | 1,382,322 | 1,330,134 | 52,188 |
| Grants and Entitlements | 5,993,620 | 5,957,308 | 36,312 |
| General Obligation Bonds Issued | 0 | 2,100,000 | (2,100,000) |
| Premium on General Obligation Bonds | 0 | 140,172 | (140,172) |
| Unrestricted Contributions | 2,008 | 4,600 | (2,592) |
| Investment Earnings | 113,595 | 57,249 | 56,346 |
| Miscellaneous | 9,216 | 37,145 | (27,929) |
| Total General Receipts | 11,072,707 | 13,078,651 | (2,005,944) |
| Total Receipts | 13,184,600 | 14,991,256 | (1,806,656) |
| **Program Disbursements** | | | |
| Instruction: | | | |
| Regular | 5,260,795 | 5,014,349 | (246,446) |
| Special | 1,561,456 | 1,257,431 | (304,025) |
| Vocational | 164,899 | 150,069 | (14,830) |
| Student Intervention Services | 3,574 | 3,795 | 221 |
| Support Services: | | | |
| Pupils | 572,733 | 532,667 | (40,066) |
| Instructional Staff | 457,474 | 360,787 | (96,687) |
| Board of Education | 7,625 | 7,840 | 215 |
| Administration | 903,014 | 870,363 | (32,651) |
| Fiscal | 381,941 | 461,294 | 79,353 |
| Operation and Maintenance of Plant | 1,076,712 | 981,155 | (95,557) |
| Pupil Transportation | 826,029 | 772,220 | (53,809) |
| Central | 82,367 | 89,262 | 6,895 |
| Operation of Non-Instructional Services | 338,295 | 335,056 | (3,239) |
| Extracurricular Activities | 400,510 | 393,354 | (7,156) |
| Capital Outlay | 484,143 | 267,019 | (217,124) |
| Debt Service | 688,516 | 589,734 | (98,782) |
| Total Program Disbursements | 13,210,083 | 12,086,395 | (1,123,688) |
| Change in Net Position | (25,483) | 2,904,861 | (2,930,344) |
| *Net Position Beginning of Year* | 9,096,445 | 6,191,584 | 2,904,861 |
| *Net Position End of Year* | $9,070,962 | $9,096,445 | ($25,483) |

Grants and entitlements are the School District's largest source of receipts, followed by property taxes. The School District carefully monitors both of these receipts and uses both a five year forecast and a spending plan to predict future receipts and disbursements of the School District.

Some of the significant disbursements during fiscal year 2018 were in the categories of regular and special instruction. Regular instruction disbursements are primarily salary and benefit costs for the School District's teachers.

***Governmental Activities***

The School District has carefully planned its financial existence by forecasting its receipts and disbursements over the next five years. Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

The majority of the School District's budget is used to fund instructional disbursements. Additional supporting services for pupils, staff, transportation and other operations of the School District is the second largest area of disbursements. The remaining amount of program disbursements is budgeted to facilitate other obligations of the School District such as debt service, the food service program and numerous extracurricular activities.

The statement of activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. That is, it identifies the cost of these services supported by tax receipts and unrestricted State entitlements.

**Table 3**
**Governmental Activities**

| | Total Cost of Services 2018 | Net Cost of Services 2018 | Total Cost of Services 2017 | Net Cost of Services 2017 |
|---|---|---|---|---|
| **Governmental Activities:** | | | | |
| Instruction: | | | | |
| Regular | $5,260,795 | ($4,927,660) | $5,014,349 | ($4,734,604) |
| Special | 1,561,456 | (621,137) | 1,257,431 | (407,065) |
| Vocational | 164,899 | (111,643) | 150,069 | (104,352) |
| Student Intervention Services | 3,574 | 3,859 | 3,795 | (66) |
| Support Services: | | | | |
| Pupils | 572,733 | (540,326) | 532,667 | (505,412) |
| Instructional Staff | 457,474 | (431,333) | 360,787 | (343,220) |
| Board of Education | 7,625 | (7,625) | 7,840 | (7,840) |
| Administration | 903,014 | (852,223) | 870,363 | (827,905) |
| Fiscal | 381,941 | (360,660) | 461,294 | (429,404) |
| Operation and Maintenance of Plant | 1,076,712 | (979,077) | 981,155 | (903,468) |
| Pupil Transportation | 826,029 | (765,989) | 772,220 | (718,346) |
| Central | 82,367 | (72,227) | 89,262 | (80,047) |
| Operation of Non-Instructional Services | 338,295 | 15,661 | 335,056 | (10,753) |
| Extracurricular Activities | 400,510 | (275,151) | 393,354 | (244,555) |
| Capital Outlay | 484,143 | (484,143) | 267,019 | (267,019) |
| Debt Service | 688,516 | (688,516) | 589,734 | (589,734) |
| Total | $13,210,083 | ($11,098,190) | $12,086,395 | ($10,173,790) |

The negative numbers in the chart on the prior page demonstrate that the receipts specific to each program are not enough to meet the disbursements of the School District. Because the remaining disbursements are covered by general receipts, the reliance upon local tax revenues for governmental activities is crucial.

**School District's Funds**

Information regarding the School District's major funds can be found beginning on page 16. These funds are accounted for using the cash basis method of accounting. Fund balance of total governmental funds increased for fiscal year 2018. The general fund had an increase in fund balance for fiscal year 2018, with an increase in receipts, mainly intergovernmental and tuition and fees receipts, and an increase in disbursements from fiscal year 2017, primarily increases in regular and special instruction and instructional staff. The increases in disbursements are mainly due to base salary increases. The bond retirement fund had a small decrease in fund balance due to an increase in disbursements for scheduled debt payments and a decrease in other financing sources, despite the increase in receipts. The increase in receipts is due to an increase in property tax receipts from the debt service levy that began collections in calendar year 2017. The facilities improvement fund had a decrease in fund balance for fiscal year 2018 due to the use of fiscal year 2017 bond proceeds for capital outlay as work on the facilities improvement projects continued.

**General Fund Budgeting Highlights**

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant fund to be budgeted is the main operating fund of the School District, the general fund.

During the course of fiscal year 2018, the School District amended its general fund budget a few times, none significantly. The School District uses an operational unit budget process and has in place systems that are designed to tightly control expenditures but provide flexibility for program-based decisions and management.

For the general fund, the original budgeted receipts were equal to final budgeted receipts. The actual receipts received were higher than the final budgeted receipts, mainly due to higher than anticipated property taxes, intergovernmental, and tuition and fees receipts. Original budgeted disbursements and other financing uses were slightly higher than final budget. Actual disbursements and other financing uses were less than the final budget, due to conservative spending.

The general fund's unencumbered ending cash balance was more than the final budgeted ending cash balance.

**Capital Assets and Debt**

*Capital Assets*

The School District maintains a listing of its capital assets. These records are not required to be presented in the financial statements.

*Debt*

Table 4 that follows summarizes the School District's bonds outstanding. More detailed information is presented in Note 14 to the basic financial statements.

**Table 4**
**Outstanding Debt at Fiscal Year End**
**Governmental Activities**

| | 2018 | 2017 |
|---|---|---|
| Refunded Ohio School Facilities Commission Bonds | $3,107,425 | $3,446,278 |
| 2017 School Facilities Construction and Improvement Bonds | 2,110,449 | 2,240,172 |
| Total | $5,217,874 | $5,686,450 |

The 2001 school facilities bonds were issued for the local share of the School District's approved master plan with the Ohio School Facilities Commission. A portion of these bonds was refunded during fiscal year 2007. These refunded bonds will be fully repaid in fiscal year 2028.

The 2017 school facilities bonds were issued for the purpose of constructing, renovating, and improving school facilities, including athletic and vocational agriculture facilities. These bonds will be fully repaid in fiscal year 2032.

The School District's overall legal debt margin was $10,198,989 with an unvoted debt margin of $159,910 at fiscal year end. The School District maintains a bond rating of A2 by Moody's.

## Current Issues Affecting Financial Condition

The School District is still struggling with lower than expected report card results. The elementary school is doing well, but the middle school and high school are struggling. The School District implemented a pilot project last year using a grid method which allows for more personalized and mastery learning. Staff and students reported this process to be successful, and it will be expanded this year. The addition of a half-time middle school principal will help add focus to the testing issues, along with freeing up the high school principal to focus on the high school testing issues. Past work within the special education program has shown to be successful with a B rating in closing the gap. The School District has maintained a graduation rate of 94 percent.

The financial future of the School District is not without its challenges. These challenges are internal and external in nature. The internal challenges will continue to exist as the School District must continue to rely heavily on local property taxes to fund its operations. External challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with the unconstitutionality of the State's educational funding system and budget cuts at the State level.

Information currently available to support an accurate five year forecast is very vague. Property taxes remain fairly consistent in Knox County with an increase this fiscal year as mentioned previously and the income tax collections have continued slow but steady growth for the past three years.

The volatility of the Foundation funding source, due to the concerns over uncertain funding sources such as casinos, video lottery terminals, and income tax cuts, has placed an undue burden on all districts. The School District will try to maintain our current educational program by remaining vigilant regarding expenses.

As a result of the challenges mentioned, it is imperative the School District's management continue to carefully and prudently plan in order to provide the resources required to meet student needs over the next several years.

In summary, the Centerburg Local School District has committed itself to financial and educational excellence for many years to come.

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

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Ellen Scott, Treasurer, at Centerburg Local School District, 119 South Preston Street, Centerburg, Ohio 43011, or email at ellen.scott@centerburgschools.org.

# Basic Financial Statements

## Centerburg Local School District

*Statement of Net Position - Cash Basis*

*June 30, 2018*

| | Governmental Activities |
|---|---|
| **Assets** | |
| Equity in Pooled Cash and Cash Equivalents | $8,578,392 |
| Cash and Cash Equivalents with Fiscal Agents | 492,570 |
| *Total Assets* | $9,070,962 |
| | |
| **Net Position** | |
| Restricted for: | |
| Capital Projects | $1,712,042 |
| Debt Service | 862,079 |
| Other Purposes | 187,529 |
| Unrestricted | 6,309,312 |
| *Total Net Position* | $9,070,962 |

See accompanying notes to the basic financial statements

**Centerburg Local School District**
*Statement of Activities - Cash Basis*
*For the Fiscal Year Ended June 30, 2018*

| | | Program Receipts | | | Net Receipts (Disbursements) and Changes in Net Position |
|---|---|---|---|---|---|
| | Cash Disbursements | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| **Governmental Activities** | | | | | |
| Instruction: | | | | | |
| Regular | $5,260,795 | $301,807 | $31,328 | $0 | ($4,927,660) |
| Special | 1,561,456 | 66,585 | 873,734 | 0 | (621,137) |
| Vocational | 164,899 | 9,220 | 44,036 | 0 | (111,643) |
| Student Intervention Services | 3,574 | 0 | 7,433 | 0 | 3,859 |
| Support Services: | | | | | |
| Pupils | 572,733 | 32,407 | 0 | 0 | (540,326) |
| Instructional Staff | 457,474 | 26,141 | 0 | 0 | (431,333) |
| Board of Education | 7,625 | 0 | 0 | 0 | (7,625) |
| Administration | 903,014 | 50,791 | 0 | 0 | (852,223) |
| Fiscal | 381,941 | 21,011 | 0 | 270 | (360,660) |
| Operation and Maintenance of Plant | 1,076,712 | 52,817 | 35,333 | 9,485 | (979,077) |
| Pupil Transportation | 826,029 | 45,635 | 14,405 | 0 | (765,989) |
| Central | 82,367 | 4,740 | 5,400 | 0 | (72,227) |
| Operation of Non-Instructional Services | 338,295 | 209,402 | 144,554 | 0 | 15,661 |
| Extracurricular Activities | 400,510 | 118,785 | 6,574 | 0 | (275,151) |
| Capital Outlay | 484,143 | 0 | 0 | 0 | (484,143) |
| Debt Service | 688,516 | 0 | 0 | 0 | (688,516) |
| *Total* | $13,210,083 | $939,341 | $1,162,797 | $9,755 | (11,098,190) |

| | |
|---|---|
| **General Receipts** | |
| Property Taxes Levied for: | |
| General Purposes | 2,831,167 |
| Debt Service | 616,216 |
| Capital Projects | 78,339 |
| Classroom Facilities Maintenance | 46,224 |
| Income Taxes Levied for General Purposes | 1,382,322 |
| Grants and Entitlements not Restricted to Specific Programs | 5,993,620 |
| Unrestricted Contributions | 2,008 |
| Investment Earnings | 113,595 |
| Miscellaneous | 9,216 |
| *Total General Receipts* | 11,072,707 |
| Change in Net Position | (25,483) |
| *Net Position Beginning of Year* | 9,096,445 |
| *Net Position End of Year* | $9,070,962 |

See accompanying notes to the basic financial statements

**Centerburg Local School District**

*Statement of Assets and Fund Balances - Cash Basis*

*Governmental Funds*

*June 30, 2018*

| | General | Bond Retirement | Facilities Improvement | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Equity in Pooled Cash and Cash Equivalents | $5,818,141 | $862,079 | $1,499,785 | $398,387 | $8,578,392 |
| **Fund Balances** | | | | | |
| Restricted | $0 | $862,079 | $1,499,785 | $399,786 | $2,761,650 |
| Committed | 91,873 | 0 | 0 | 0 | 91,873 |
| Assigned | 2,188,751 | 0 | 0 | 0 | 2,188,751 |
| Unassigned (Deficit) | 3,537,517 | 0 | 0 | (1,399) | 3,536,118 |
| *Total Fund Balances* | $5,818,141 | $862,079 | $1,499,785 | $398,387 | $8,578,392 |

See accompanying notes to the basic financial statements

## Centerburg Local School District

*Reconciliation of Total Governmental Fund Balances to*
*Net Position of Governmental Activities*
*June 30, 2018*

| | |
|---|---|
| **Total Governmental Fund Balances** | $8,578,392 |
| ***Amounts reported for governmental activities in the statement of net position are different because:*** | |
| An internal service fund is used by management to charge the costs of insurance to individual funds. The assets of the internal service fund are included in governmental activities in the statement of net position. | 492,570 |
| *Net Position of Governmental Activities* | $9,070,962 |

See accompanying notes to the basic financial statements

**Centerburg Local School District**

*Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis*

*Governmental Funds*

*For the Fiscal Year Ended June 30, 2018*

| | General | Bond Retirement | Facilities Improvement | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Receipts** | | | | | |
| Property Taxes | $2,831,167 | $616,216 | $0 | $124,563 | $3,571,946 |
| Income Taxes | 1,382,322 | 0 | 0 | 0 | 1,382,322 |
| Intergovernmental | 6,446,221 | 59,238 | 0 | 654,038 | 7,159,497 |
| Interest | 89,290 | 0 | 20,602 | 0 | 109,892 |
| Tuition and Fees | 616,199 | 0 | 0 | 0 | 616,199 |
| Extracurricular Activities | 10,076 | 0 | 0 | 92,082 | 102,158 |
| Contributions and Donations | 6,648 | 0 | 0 | 2,035 | 8,683 |
| Charges for Services | 0 | 0 | 0 | 209,402 | 209,402 |
| Rentals | 9,582 | 0 | 0 | 2,000 | 11,582 |
| Miscellaneous | 9,216 | 0 | 0 | 0 | 9,216 |
| *Total Receipts* | 11,400,721 | 675,454 | 20,602 | 1,084,120 | 13,180,897 |
| **Disbursements** | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 5,108,403 | 0 | 0 | 31,328 | 5,139,731 |
| Special | 1,127,007 | 0 | 0 | 416,975 | 1,543,982 |
| Vocational | 160,220 | 0 | 0 | 0 | 160,220 |
| Student Intervention Services | 0 | 0 | 0 | 3,574 | 3,574 |
| Support Services: | | | | | |
| Pupils | 563,162 | 0 | 0 | 214 | 563,376 |
| Instructional Staff | 454,275 | 0 | 0 | 0 | 454,275 |
| Board of Education | 7,625 | 0 | 0 | 0 | 7,625 |
| Administration | 882,651 | 0 | 0 | 140 | 882,791 |
| Fiscal | 365,135 | 11,635 | 0 | 2,455 | 379,225 |
| Operation and Maintenance of Plant | 883,092 | 0 | 0 | 182,544 | 1,065,636 |
| Pupil Transportation | 793,040 | 0 | 0 | 0 | 793,040 |
| Central | 82,367 | 0 | 0 | 0 | 82,367 |
| Operation of Non-Instructional Services | 0 | 0 | 0 | 338,295 | 338,295 |
| Extracurricular Activities | 302,691 | 0 | 0 | 97,819 | 400,510 |
| Capital Outlay | 0 | 0 | 481,021 | 3,122 | 484,143 |
| Debt Service: | | | | | |
| Principal Retirement | 0 | 455,000 | 0 | 0 | 455,000 |
| Interest and Fiscal Charges | 0 | 233,516 | 0 | 0 | 233,516 |
| *Total Disbursements* | 10,729,668 | 700,151 | 481,021 | 1,076,466 | 12,987,306 |
| *Net Change in Fund Balances* | 671,053 | (24,697) | (460,419) | 7,654 | 193,591 |
| *Fund Balances Beginning of Year* | 5,147,088 | 886,776 | 1,960,204 | 390,733 | 8,384,801 |
| *Fund Balances End of Year* | $5,818,141 | $862,079 | $1,499,785 | $398,387 | $8,578,392 |

See accompanying notes to the basic financial statements

**Centerburg Local School District**

*Reconciliation of the Statement of Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balances of Governmental Funds to the Statement of Activities*

*For the Fiscal Year Ended June 30, 2018*

| | |
|---|---|
| **Net Change in Fund Balances - Total Governmental Funds** | $193,591 |
| ***Amounts reported for governmental activities in the statement of activities are different because:*** | |
| The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund disbursements and the related internal service fund receipts are eliminated. The net receipts (disbursements) of the internal service fund is allocated among the governmental activities. | (219,074) |
| *Change in Net Position of Governmental Activities* | ($25,483) |

See accompanying notes to the basic financial statements

**Centerburg Local School District**

*Statement of Receipts, Disbursements and Changes*
*in Fund Balance - Budget and Actual - Budget Basis*
*General Fund*
*For the Fiscal Year Ended June 30, 2018*

| | Budgeted Amounts | | | Variance with Final Budget Positive |
|---|---|---|---|---|
| | Original | Final | Actual | (Negative) |
| **Receipts** | | | | |
| Property Taxes | $2,640,500 | $2,640,500 | $2,831,167 | $190,667 |
| Income Taxes | 1,325,000 | 1,325,000 | 1,382,322 | 57,322 |
| Intergovernmental | 5,889,500 | 5,889,500 | 6,446,221 | 556,721 |
| Interest | 20,000 | 20,000 | 89,290 | 69,290 |
| Tuition and Fees | 427,000 | 427,000 | 615,880 | 188,880 |
| Contributions and Donations | 5,000 | 5,000 | 2,008 | (2,992) |
| Rentals | 10,000 | 10,000 | 9,582 | (418) |
| Miscellaneous | 27,500 | 27,500 | 9,216 | (18,284) |
| *Total Receipts* | 10,344,500 | 10,344,500 | 11,385,686 | 1,041,186 |
| **Disbursements** | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 5,857,009 | 5,763,012 | 5,228,742 | 534,270 |
| Special | 1,201,553 | 1,394,953 | 1,147,767 | 247,186 |
| Vocational | 184,096 | 184,596 | 165,742 | 18,854 |
| Support Services: | | | | |
| Pupils | 596,100 | 611,300 | 567,157 | 44,143 |
| Instructional Staff | 492,488 | 564,939 | 511,143 | 53,796 |
| Board of Education | 9,500 | 9,500 | 7,625 | 1,875 |
| Administration | 1,318,568 | 994,867 | 914,882 | 79,985 |
| Fiscal | 447,646 | 459,246 | 418,559 | 40,687 |
| Operation and Maintenance of Plant | 1,076,851 | 1,118,398 | 1,004,549 | 113,849 |
| Pupil Transportation | 887,918 | 930,418 | 835,405 | 95,013 |
| Central | 81,000 | 83,500 | 82,367 | 1,133 |
| Extracurricular Activities | 260,000 | 297,500 | 283,397 | 14,103 |
| *Total Disbursements* | 12,412,729 | 12,412,229 | 11,167,335 | 1,244,894 |
| *Excess of Receipts Over (Under) Disbursements* | (2,068,229) | (2,067,729) | 218,351 | 2,286,080 |
| **Other Financing Uses** | | | | |
| Transfers Out | (100,000) | (100,000) | 0 | 100,000 |
| *Net Change in Fund Balance* | (2,168,229) | (2,167,729) | 218,351 | 2,386,080 |
| *Fund Balance Beginning of Year* | 4,617,697 | 4,617,697 | 4,617,697 | 0 |
| Prior Year Encumbrances Appropriated | 505,429 | 505,429 | 505,429 | 0 |
| *Fund Balance End of Year* | $2,954,897 | $2,955,397 | $5,341,477 | $2,386,080 |

See accompanying notes to the basic financial statements

**Centerburg Local School District**

*Statement of Fund Net Position - Cash Basis*

*Internal Service Fund*

*June 30, 2018*

| | Insurance |
|---|---|
| **Assets** | |
| Cash and Cash Equivalents with Fiscal Agents | $492,570 |
| | |
| **Net Position** | |
| Unrestricted | $492,570 |

See accompanying notes to the basic financial statements

**Centerburg Local School District**

*Statement of Receipts, Disbursements and*
*Changes in Fund Net Position - Cash Basis*
*Internal Service Fund*
*For the Fiscal Year Ended June 30, 2018*

| | Insurance |
|---|---|
| **Operating Receipts** | |
| Charges for Services | $1,716,565 |
| **Operating Disbursements** | |
| Purchased Services | 152,699 |
| Claims | 1,786,643 |
| *Total Operating Disbursements* | 1,939,342 |
| *Operating Loss* | (222,777) |
| **Non-Operating Receipts** | |
| Interest | 3,703 |
| *Change in Net Position* | (219,074) |
| *Net Position Beginning of Year* | 711,644 |
| *Net Position End of Year* | $492,570 |

See accompanying notes to the basic financial statements

**Centerburg Local School District**

*Statement of Fiduciary Net Position - Cash Basis*

*Fiduciary Funds*

*June 30, 2018*

| | Private-Purpose Trust | |
|---|---|---|
| | Scholarship | Agency |
| **Assets** | | |
| Equity in Pooled Cash and Cash Equivalents | $104,486 | $49,493 |
| **Liabilities** | | |
| Due to Students | 0 | $49,493 |
| **Net Position** | | |
| Held in Trust for Scholarships | $104,486 | |

See accompanying notes to the basic financial statements

# Centerburg Local School District

*Statement of Changes in Fiduciary Net Position - Cash Basis*
*Private Purpose Trust Fund*
*For the Fiscal Year Ended June 30, 2018*

| | Scholarship |
|---|---|
| **Additions** | |
| Interest | $1,221 |
| Contributions and Donations | 8,500 |
| Miscellaneous | 1,726 |
| *Total Additions* | 11,447 |
| **Deductions** | |
| Scholarships Awarded | 12,500 |
| *Change in Net Position* | (1,053) |
| *Net Position Beginning of Year* | 105,539 |
| *Net Position End of Year* | $104,486 |

See accompanying notes to the basic financial statements

## Note 1 – Description of the School District and Reporting Entity

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

The School District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State and federal agencies. The Board of Education controls the School District's two instructional facilities, one administrative building, and one garage staffed by 34 classified employees and 78 certificated full-time teaching personnel who provide services to 1,256 students and other community members.

*Reporting Entity*

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

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

The School District participates in the Metropolitan Educational Technology Association and the Knox County Career Center, jointly governed organizations, and in the Ohio School Boards Association Workers’ Compensation Group Rating Program and the Jefferson Health Plan, insurance purchasing pools. These organizations are presented in Notes 9 and 10 to the basic financial statements.

## Note 2 – Summary of Significant Accounting Policies

As discussed further in the Basis of Accounting Portion of this note, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the School District’s accounting policies.

***Basis of Presentation***

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

***Government-wide Financial Statements*** The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. These statements usually distinguish those activities of the School District that are governmental and those that are considered business-type. The School District, however, has no business-type activities.

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

***Fund Financial Statements*** During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

***Fund Accounting***

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

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

> ***General Fund*** The general fund is the operating fund of the School District and is used to account for and report all financial resources except those required to be accounted for and reported in another fund. The general fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.
>
> ***Bond Retirement Fund*** The bond retirement fund is used to account for and report property taxes and intergovernmental revenue restricted for the payment of general long-term debt principal, interest and related costs.
>
> ***Facilities Improvement Fund*** The facilities improvement fund is used to account for and report bond proceeds restricted for the construction, renovation, and improvement of school facilities.

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

***Proprietary Fund*** Proprietary funds reporting focuses on the determination of operating income, changes in net position, financial position and cash flows and are classified as either enterprise or internal service. The School District only has an internal service fund.

> ***Internal Service Fund*** The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund is a self-insurance fund that accounts for medical and prescription benefits of School District employees.

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

***Basis of Accounting***

The School District's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

***Cash and Cash Equivalents***

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During fiscal year 2018, investments were limited to STAR Ohio, the State Treasurer's Investment Pool. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB) Statement No. 79, "Certain External Investment Pools and Pool Participants." The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, twenty-four hours advance notice is appreciated for deposits and withdrawals of $25 million or more. STAR Ohio reserves the right to limit the transactions to $100 million per day, 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 revenue credited to the general fund during fiscal year 2018 amounted to $89,290, which includes $14,758 assigned from other School District funds.

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

The School District participates in the Jefferson Health Plan insurance consortium for self-insurance. These monies are reflected on the statement of net position as "cash and cash equivalents with fiscal agents." The Jefferson County Educational Service Center serves as the fiscal agent for the insurance consortium.

***Restricted Assets***

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the acquisition and construction of capital improvements. See Note 18 for additional information regarding set asides.

***Inventory and Prepaid Items***

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

***Capital Assets***

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

***Accumulated Leave***

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's cash basis of accounting.

***Employer Contributions to Cost-Sharing Pension Plans***

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 11 and 12, the employer contributions include portions for pension benefits and for postretirement health care benefits.

***Pension/Postemployment Benefits***

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

***Long-Term Obligations***

The School District's 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 paid.

***Fund Balance***

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

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

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

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

***Assigned*** Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the School District Board of Education or a School District official delegated that authority by State statute. State statue authorizes the Treasurer to assign fund balance to purchases on order provided such amounts have been lawfully appropriated. The School District Board of Education assigned fund balance for public school support and to cover a gap between estimated revenue and appropriations in the fiscal year 2019 budget.

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

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

***Net Position***

Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for food service operations, classroom maintenance, district managed activities, and special education. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position is available.

***Budgetary Data***

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

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

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

## Note 3 – Accountability

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined.

The miscellaneous federal grants special revenue fund had a negative cash fund balance of $1,399. This cash deficit is the result of monies being expended with the expectation that the School District will be reimbursed during fiscal year 2019. Although this cash deficit was not corrected by fiscal year end, management has indicated that cash will be closely monitored to prevent future violations.

## Note 4 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The statement of receipts, disbursements and changes in fund balance – budget and actual – budget basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances which are treated as cash disbursements (budgetary basis) rather than restricted, committed, or assigned fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis), amounted to $456,961. The public school support fund is included with the general fund on the statement of assets and fund balances, as it does not have a committed or restricted receipt source. The net change in fund balance for the public school support fund was ($4,259).

## Note 5 – Fund Balance

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

| Fund Balances | General | Bond Retirement | Facilities Improvement | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| ***Restricted for:*** | | | | | |
| Capital Projects | $0 | $0 | $1,499,785 | $212,257 | $1,712,042 |
| Debt Service | 0 | 862,079 | 0 | 0 | 862,079 |
| Other Purposes: | | | | | |
| Food Service Operations | 0 | 0 | 0 | 50,461 | 50,461 |
| Classroom Maintenance | 0 | 0 | 0 | 98,573 | 98,573 |
| District Managed Activities | 0 | 0 | 0 | 33,481 | 33,481 |
| Special Education | 0 | 0 | 0 | 5,014 | 5,014 |
| *Total Restricted* | 0 | 862,079 | 1,499,785 | 399,786 | 2,761,650 |
| ***Committed to:*** | | | | | |
| Purchases on Order: | | | | | |
| Student Instruction | 15,535 | 0 | 0 | 0 | 15,535 |
| Support Services | 76,338 | 0 | 0 | 0 | 76,338 |
| *Total Committed* | 91,873 | 0 | 0 | 0 | 91,873 |
| ***Assigned to:*** | | | | | |
| Fiscal Year 2019 Operations | 1,803,960 | 0 | 0 | 0 | 1,803,960 |
| Purchases on Order: | | | | | |
| Student Instruction | 131,086 | 0 | 0 | 0 | 131,086 |
| Support Services | 234,002 | 0 | 0 | 0 | 234,002 |
| Public School Support | 19,703 | 0 | 0 | 0 | 19,703 |
| *Total Assigned* | 2,188,751 | 0 | 0 | 0 | 2,188,751 |
| ***Unassigned (Deficit)*** | 3,537,517 | 0 | 0 | (1,399) | 3,536,118 |
| *Total Fund Balances* | $5,818,141 | $862,079 | $1,499,785 | $398,387 | $8,578,392 |

## Note 6 – Deposits and Investments

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

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

Inactive deposits are public deposits that the Board has identified as not required for use within the current 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.

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 institution's 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.

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio; and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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 (STAR Ohio); and

8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time, if training requirements have been met.

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

At June 30, 2018, the School District's self-insurance internal service fund had a balance of $492,570 with the Jefferson Health Plan, a claims servicing pool (See Note 10). The money is held by the claims servicer in a pooled account which is representative of numerous entities and therefore cannot be classified by risk under GASB Statement 3. The classification of cash and cash equivalents and investments for the Jefferson Health Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Jefferson Health Plan, Steubenville, Ohio 43952.

**Investments** As of June 30, 2018, the School District only had an investment in STAR Ohio, the State Treasurer's Investment Pool. This investment of $112,888 has an average maturity of 48.9 days.

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

## Note 7 – Property Taxes

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. First half tax 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 and public utility located in the School District. Real property tax revenue received in calendar year 2018 represents collections of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed value listed as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2018 represents collections of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 became a lien December 31, 2016, were levied after April 1, 2017, and are collected in calendar year 2018 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Knox, Licking, and Delaware Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2018, are available to finance fiscal year 2018 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

| | 2017 Second Half Collections | | 2018 First Half Collections | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| Real Estate | $148,834,591 | 97.20% | $155,231,404 | 97.07% |
| Public Utility Personal | 4,288,080 | 2.80 | 4,678,710 | 2.93 |
| | $153,122,671 | 100.00% | $159,910,114 | 100.00% |
| Tax Rate per $1,000 of assessed valuation | $39.28 | | $38.49 | |

During fiscal year 2018, property tax values increased in the School District. This caused the tax rate to decrease so that the bond levies would meet their collection amounts.

## Note 8 – Income Tax

The School District levies a voted tax of 0.75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1998, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund.

## Note 9 – Jointly Governed Organizations

***Metropolitan Educational Technology Association*** The School District is a participant in the Metropolitan Educational Technology Association (META), which is a jointly governed organization, created as a regional council of governments pursuant to Chapter 167 of the Ohio Revised Code. META operates as, and has all the powers of, a data acquisition site/information technology center pursuant to applicable provisions of the Ohio Revised Code. The organization was formed for the purpose of identifying, developing, and providing to members and non-members innovative educational and technological services and products, as well as expanded opportunities for cooperative purchasing. The General Assembly of META consists of one delegate from every member school district. The delegate is the superintendent of the school district or the superintendent’s designee. The degree of control exercised by any participating school district is limited to its representation on the General Assembly. The General Assembly exercises total control over the operation of META including budgeting, appropriating, contracting, and designating management. The School District paid $54,330 to META during fiscal year 2018 for services. Financial information can be obtained from David Varda, CFO, 100 Executive Drive, Marion, Ohio 43302.

***Knox County Career Center*** The Knox County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school districts’ elected boards, which possesses its own budgeting and taxing authority. The School District did not make any payments to the Career Center during fiscal year 2018. To obtain financial information, write to the Knox County Career Center, Tracy Elliott, who serves as Treasurer, at 306 Martinsburg Road, Mount Vernon, Ohio 43050.

## Note 10 – Insurance Purchasing Pools

***Ohio School Boards Association Workers' Compensation Group Rating Program (GRP)***

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (Plan) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

***Jefferson Health Plan***

The School District participates in the Jefferson Health Plan, a risk-sharing, claims servicing, and insurance purchasing pool composed of ninety members, including two insurance consortiums. Each participant appoints a member of the insurance plans' assembly. The Plan's business and affairs are conducted by a nine member Board of Directors elected from the assembly. The plan offers medical, dental and prescription drug coverage to the members on a self-insured basis, as well as the opportunity to participate in the group purchasing of life insurance coverage. The medical coverage plan provides each plan participant the opportunity to choose a self-insurance deductible limit which can range from $35,000 to $100,000 under which the individual member is responsible for all claims through the claims servicing pool. Plan participants also participate in a shared risk internal pool for individual claims between the self-insurance deductible limit and $500,000, and all claims between the deductible and the $500,000 are paid from the internal shared risk pool. The internal pool is not owned by the participants. All participants pay a premium rate that is actuarially calculated based on the participants' actual claims experience which are utilized for the payment of claims within the claims servicing pool up to the self-insurance deductible limit; and for this portion of the plan, all plan participants retain their own risk. All participants pay an additional fee for participation in the internal pool that is based on the claims of the internal pool in aggregate and is not based on individual claims experience. In the event of a deficiency in the internal pool, participants would be charged a higher rate for participation, and in the event of a surplus, the internal pool pays dividends to the participants. For all individual claims exceeding $500,000, stop loss coverage is purchased, as well as for an annual total plan aggregate claims amount. All plan participants also pay a monthly administration fee for fiscal services and third party administrative services. The plan also purchases fully insured life insurance for plan participants provided by United Medical Resources.

## Note 11 – Defined Benefit Pension Plans

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

***Net Pension Liability/Net OPEB Liability***

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

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

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

GASB 68/75 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). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The remainder of this note includes the pension disclosures. See Note 12 for the OPEB disclosures.

***Plan Description – School Employees Retirement System (SERS)***

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was $162,531 for fiscal year 2018.

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

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, Ohio 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 is 2.2 percent 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 5 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 5 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 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of 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 the fiscal year ended June 30, 2018, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was $636,844 for fiscal year 2018.

***Net Pension Liability***

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

| | SERS | STRS | Total |
|---|---|---|---|
| Proportion of the Net Pension Liability Prior Measurement Date | 0.04024470% | 0.03965062% | |
| Proportion of the Net Pension Liability Current Measurement Date | 0.03915760% | 0.03980517% | |
| Change in Proportionate Share | -0.00108710% | 0.00015455% | |
| Proportionate Share of the Net Pension Liability | $2,339,580 | $9,455,803 | $11,795,383 |

***Actuarial Assumptions – SERS***

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented as follows:

| | |
|---|---|
| Wage Inflation | 3.00 percent |
| Future Salary Increases, including inflation | 3.50 percent to 18.20 percent |
| COLA or Ad Hoc COLA | 2.5 percent |
| Investment Rate of Return | 7.50 percent net of investments expense, including inflation |
| Actuarial Cost Method | Entry Age Normal |

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

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

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

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

| 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 | 100.00 % | |

***Discount Rate*** The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

***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 School District's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| School District's proportionate share of the net pension liability | $3,246,729 | $2,339,580 | $1,579,658 |

***Actuarial Assumptions – STRS***

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

| | July 1, 2017 | July 1, 2016 |
|---|---|---|
| Inflation | 2.50 percent | 2.75 percent |
| Projected salary increases | 12.50 percent at age 20 to 2.50 percent at age 65 | 12.25 percent at age 20 to 2.75 percent at age 70 |
| Investment Rate of Return | 7.45 percent, net of investment expenses, including inflation | 7.75 percent, net of investment expenses, including inflation |
| Payroll Increases | 3 percent | 3.5 percent |
| Cost-of-Living Adjustments (COLA) | 0.0 percent, effective July 1, 2017 | 2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date. |

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

For the July 1, 2016, actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022 – Scale AA) for Males and Females. Males' ages are set back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set-back from age 80 through 89, and no set-back from age 90 and above.

Actuarial assumptions used in the July 1, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011, through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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 Rate of Return * |
|---|---|---|
| Domestic Equity | 28.00 % | 7.35 % |
| International Equity | 23.00 | 7.55 |
| Alternatives | 17.00 | 7.09 |
| Fixed Income | 21.00 | 3.00 |
| Real Estate | 10.00 | 6.00 |
| Liquidity Reserves | 1.00 | 2.25 |
| Total | 100.00 % | |

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

***Discount Rate*** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

***Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current rate:

| | 1% Decrease (6.45%) | Current Discount Rate (7.45%) | 1% Increase (8.45%) |
|---|---|---|---|
| School District's proportionate share of the net pension liability | $13,554,572 | $9,455,803 | $6,003,205 |

***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 Employees Retirement System. As of June 30, 2018, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

## Note 12 – Defined Benefit OPEB Plans

***Net OPEB Liability***

For fiscal year 2018, Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was effective. This GASB pronouncement had no effect on beginning net position as reported June 30, 2017, as the net OPEB liability is not reported in the accompanying financial statements. See below for a description of the net OPEB liability.

***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 percent of covered payroll to the

Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was $23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the School District's surcharge obligation was $20,428.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was $26,448 for fiscal year 2018.

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

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

***Net OPEB Liability***

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

| | SERS | STRS | Total |
|---|---|---|---|
| Proportion of the Net OPEB Liability Prior Measurement Date | 0.04071860% | 0.03965062% | |
| Proportion of the Net OPEB Liability Current Measurement Date | 0.03952090% | 0.03980517% | |
| Change in Proportionate Share | -0.00119770% | 0.00015455% | |
| Proportionate Share of the Net OPEB Liability | $1,060,637 | $1,553,051 | $2,613,688 |

***Actuarial Assumptions – SERS***

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2017, are presented as follows:

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

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

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

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

The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 11.

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

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

| | 1% Decrease (2.63%) | Current Discount Rate (3.63%) | 1% Increase (4.63%) |
|---|---|---|---|
| School District's Proportionate Share of the Net OPEB Liability | $1,280,854 | $1,060,637 | $886,169 |

| | 1% Decrease (6.5 % decreasing to 4.0 %) | Current Trend Rate (7.5 % decreasing to 5.0 %) | 1% Increase (8.5 % decreasing to 6.0 %) |
|---|---|---|---|
| School District's Proportionate Share of the Net OPEB Liability | $860,628 | $1,060,637 | $1,325,353 |

***Actuarial Assumptions – STRS***

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

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

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

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

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

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

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

The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 11.

***Discount Rate*** The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036, and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

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

| | 1% Decrease (3.13%) | Current Discount Rate (4.13%) | 1% Increase (5.13%) |
|---|---|---|---|
| School District's Proportionate Share of the Net OPEB Liability | $2,084,946 | $1,553,051 | $1,132,680 |

| | 1% Decrease | Current Trend Rate | 1% Increase |
|---|---|---|---|
| School District's Proportionate Share of the Net OPEB Liability | $1,078,993 | $1,553,051 | $2,176,966 |

## Note 13 – Other Employee Benefits

### *Life Insurance Benefits*

The School District provides life insurance and accidental death and dismemberment insurance to most employees through the Anthem Life Insurance Company.

### *Deferred Compensation*

School District employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

## Note 14 – Long-Term Obligations

The original issue date, interest rate, original issue amount and date of maturity of each of the School District's bonds follow:

| Debt Issue | Interest Rate | Issue Amount | Year of Maturity |
|---|---|---|---|
| 2007 Refunded Ohio School Facilities Commission Bonds | | | |
| Current Interest Serial Bonds | 4.00 - 5.00% | $1,835,000 | 2020 to 2023 |
| Current Interest Term Bonds | 3.80 - 5.75 | 2,325,000 | 2007 to 2027 |
| 2017 School Facilities Construction and Improvement Bonds | | | |
| Current Interest Serial Bonds | 3.00 | 465,000 | 2017 to 2020 |
| Current Interest Term Bonds | 4.00 | 1,635,000 | 2025 to 2031 |

Changes in long-term obligations of the School District during fiscal year 2018 were as follows:

| | Principal Outstanding June 30, 2017 | Additions | Deductions | Principal Outstanding June 30, 2018 | Amount Due in One Year |
|---|---|---|---|---|---|
| **Governmental Activities** | | | | | |
| ***General Obligation Bonds:*** | | | | | |
| 2007 Refunded Ohio School Facilities Commission Bonds: | | | | | |
| Current Interest Serial Bonds | $1,835,000 | $0 | $0 | $1,835,000 | $0 |
| Current Interest Term Bonds | 1,575,000 | 0 | 335,000 | 1,240,000 | 365,000 |
| Premium on Bonds | 170,103 | 0 | 18,064 | 152,039 | 0 |
| Unamortized Loss | (133,825) | 0 | (14,211) | (119,614) | 0 |
| Total 2007 Refunded Ohio School Facilities Commission Bonds | 3,446,278 | 0 | 338,853 | 3,107,425 | 365,000 |
| 2017 School Facilities Construction and Improvement Bonds: | | | | | |
| Current Interest Serial Bonds | 465,000 | 0 | 120,000 | 345,000 | 110,000 |
| Current Interest Term Bonds | 1,635,000 | 0 | 0 | 1,635,000 | 0 |
| Premium on Bonds | 140,172 | 0 | 9,723 | 130,449 | 0 |
| Total 2017 School Facilities Construction and Improvement Bonds | 2,240,172 | 0 | 129,723 | 2,110,449 | 110,000 |
| *Total Governmental Activites Long-Term Liabilities* | $5,686,450 | $0 | $468,576 | $5,217,874 | $475,000 |

General obligation bonds will be paid from the debt service fund.

On October 4, 2006, the School District issued $4,354,998 in general obligation bonds to refund a portion of the 2001 Ohio School Facilities Commission general obligation bonds in order to take advantage of lower interest rates. The bonds included serial, term and capital appreciation (deep discount) bonds in the amount of $1,835,000, $2,325,000 and $194,998, respectively. The capital appreciation bonds matured in December of 2015.

The term bonds maturing on December 1, 2019 and 2027, respectively, are subject to mandatory sinking fund redemption requirements at a redemption price of 100 percent of the principal amounts to be redeemed, plus accrued interest to the date of redemption, on December 1 in each of the years and in the principal amounts set forth as follows:

| | Issue | |
|---|---|---|
| Year | $1,410,000 | $485,000 |
| 2018 | $365,000 | $0 |
| 2024 | 0 | 110,000 |
| 2025 | 0 | 120,000 |
| 2026 | 0 | 125,000 |
| Total | $365,000 | $355,000 |
| *Stated Maturity* | *12/1/2019* | *12/1/2027* |

The remaining principal amounts of the term bonds ($390,000 and $130,000) will mature at the stated maturity.

On January 31, 2017, the School District issued $2,100,000 in general obligation bonds for the purpose of constructing, renovating, and improving school facilities, including athletic and vocational agriculture facilities, and improving technology infrastructure and safety and security systems. The bonds were issued at a premium of $140,172 and include serial and term bonds in the amounts of $465,000 and $1,635,000, respectively. The bonds were issued for a 15 year period with final maturity at December 1, 2031. Interest payments of 3 to 4 percent per year are due on June 1 and December 1 of each year, until the principal amount is paid. At June 30, 2018, $627,649 of the proceeds had been spent.

*Optional Redemption* The bonds maturing after December 1, 2026, are subject to redemption at the option of the School District, either in whole or in part, in such order of maturity as the School District shall determine, on any date on or after December 1, 2026, at a redemption price equal to 100 percent of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

*Mandatory Sinking Fund Redemption* The term bonds maturing on December 1, 2025 and 2031, respectively, are subject to mandatory sinking fund redemption requirements at a redemption price of 100 percent of the principal amounts to be redeemed, plus accrued interest to the date of redemption, on December 1 in each of the years and in the principal amounts set forth as follows:

| | Issue | |
|---|---|---|
| Year | $650,000 | $985,000 |
| 2021 | $120,000 | $0 |
| 2022 | 125,000 | 0 |
| 2023 | 130,000 | 0 |
| 2024 | 135,000 | 0 |
| 2026 | 0 | 150,000 |
| 2027 | 0 | 155,000 |
| 2028 | 0 | 160,000 |
| 2029 | 0 | 165,000 |
| 2030 | 0 | 175,000 |
| Total | $510,000 | $805,000 |

The remaining principal amounts of the term bonds ($140,000 and $180,000) will mature at the stated maturity.

The overall debt margin of the School District as of June 30, 2018, was $10,198,989 with an unvoted debt margin of $159,910. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2018, are as follows:

| | General Obligation Bonds | | | |
|---|---|---|---|---|
| | Serial Bonds | | Term Bonds | |
| Fiscal Year Ended June 30 | Principal | Interest | Principal | Interest |
| 2019 | $110,000 | $8,700 | $365,000 | $201,241 |
| 2020 | 115,000 | 5,325 | 390,000 | 179,535 |
| 2021 | 540,000 | 94,223 | 0 | 65,400 |
| 2022 | 450,000 | 72,923 | 120,000 | 63,000 |
| 2023 | 470,000 | 52,173 | 125,000 | 58,100 |
| 2024-2028 | 495,000 | 30,275 | 1,195,000 | 251,205 |
| 2029-2032 | 0 | 0 | 680,000 | 55,800 |
| Total | $2,180,000 | $263,619 | $2,875,000 | $874,281 |

## Note 15 – Contingencies

### *Grants*

The School District received financial assistance from Federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2018, if applicable, cannot be determined at this time.

### *School Foundation*

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2015, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year end. As a result of the fiscal year 2018 reviews, the School District is owed $2,404 from ODE. This amount has not been included in the financial statements.

### *Litigation*

As of June 30, 2018, the School District was not party to any legal proceedings.

## Note 16 – Risk Management

### *Property and Liability*

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2018, the School District contracted with the Ohio School Plan for various types of insurance as follows:

| Type of Coverage | Deductible | Coverage |
|---|---|---|
| Property (Replacement Cost) | $1,000 | $64,264,448 |
| General Liability: | | |
| Per Occurrence | 0 | 1,000,000 |
| In Aggregate | 0 | 3,000,000 |
| Automobile Liability | 0 | 1,000,000 |
| Employers' Liability (Ohio Stop Gap) | 0 | 1,000,000 |
| Fiduciary Liability and Legal Liability: | | |
| Per Occurrence | 2,500 | 1,000,000 |
| In Aggregate | 0 | 3,000,000 |
| Violence Coverage | 0 | 1,000,000 |
| Crime Coverage | 1,000 | 100,000 |

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

***Workers' Compensation***

For fiscal year 2018, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the Plan.

***Employee Insurance Benefits***

The School District offers medical, surgical, prescription drug, dental, and vision claims coverage to all employees through a self-insurance internal service fund. Monthly premiums for the cost of claims are remitted to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability at June 30, 2018, of $457,438, which is based on an estimate provided by the third party administrator, includes unpaid claim costs and estimates of costs relating to incurred but not reported claims. The estimate was not affected by incremental claim adjustment expense and does not include other allocated or unallocated claim adjustment expenses. A comparison of self-insurance fund cash and investment to the actuarially-measured liability as of June 30 follows:

| Year | Cash and Investments | Actuarial Liabilities |
|---|---|---|
| 2017 | $711,644 | $424,521 |
| 2018 | 492,570 | 457,438 |

## Note 17 – Encumbrances

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

| | |
|---|---|
| General | $456,961 |
| Facilities Improvement | 1,122,343 |
| Other Governmental Funds | 119,853 |
| Total Governmental | $1,699,157 |

## Note 18 – Set Aside Requirements

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

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

| | Capital Improvements Reserve |
|---|---|
| Set-Aside Reserve Balance as of June 30, 2017 | $0 |
| Current Year Set-Aside Requirement | 199,006 |
| Current Year Offsets | (182,389) |
| Qualifying Disbursements | (16,617) |
| Total | $0 |
| Set-Aside Balance Carried Forward to Future Fiscal Years | $0 |
| Set-Aside Reserve Balance as of June 30, 2018 | $0 |

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

Centerburg Local School District
Knox County
119 South Preston Street
Centerburg, Ohio 43011

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Centerburg Local School District, Knox County, (the School District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 10, 2019, wherein we noted the School District uses a special purpose framework other than generally accepted accounting principles.

***Internal Control Over Financial Reporting***

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

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

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

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***Compliance and Other Matters***

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2018-001.

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

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

***Purpose of this Report***

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

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

January 10, 2019

**SCHEDULE OF FINDINGS
JUNE 30, 2018**

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

**FINDING NUMBER 2018-001**

**Noncompliance – Annual Financial Reporting**

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

**Ohio Admin. Code § 117-2-03(B)** requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the School District prepared its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* This presentation differs from accounting principles generally accepted in the United States of America (GAAP).

The accompanying financial statements and notes omit assets, liabilities, deferred inflows/outflows, fund equities, and disclosures that while material, cannot be determined at this time. Pursuant to **Ohio Rev. Code § 117.38**, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

We recommend the School District prepare its financial statements in accordance with GAAP.

**Officials' Response:**
The Board of Education voted unanimously April 2012 res. #061-12 not to report on GAAP. Given the size of the School District, the cost to report on GAAP exceeded the benefits.

Centerburg Local School District

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## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
## JUNE 30, 2018

| Finding Number | Finding Summary | Status | Additional Information |
|---|---|---|---|
| 2017-001<br>2016-001 | Ohio Rev. Code §117.38 – Annual Financial Report not prepared in accordance with generally accepted accounting principles<br><br>Finding initially issued during FY12 Audit. | Not corrected | The Board of Education voted unanimously April 2012 res. #061-12 not to report on GAAP. Given the size of the District, the cost to report on GAAP exceeded the benefits.<br><br>Reissued as Finding 2018-001 |

OHIO AUDITOR OF STATE
**KEITH FABER**

**CENTERBURG LOCAL SCHOOL DISTRICT**

**KNOX 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**
**JANUARY 29, 2019**