# NAPOLEON AREA CITY SCHOOL DISTRICT
## HENRY COUNTY

## SINGLE AUDIT

## FOR THE FISCAL YEAR ENDED JUNE 30, 2019

OHIO AUDITOR OF STATE
KEITH FABER

**NAPOLEON AREA CITY SCHOOL DISTRICT**
**HENRY COUNTY**
**JUNE 30, 2019**

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OHIO AUDITOR OF STATE
KEITH FABER

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# INDEPENDENT AUDITOR'S REPORT

Napoleon Area City School District
Henry County
701 Briarheath Avenue
Napoleon, Ohio 43545-1298

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

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

Management is responsible for 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Napoleon Area City School District, Henry County, Ohio, as of June 30, 2019, 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 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***

*Supplementary Information*

Our audit was conducted to opine on the financial statements taken as a whole.

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

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

*Other Information*

We applied no procedures to management's discussion and 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 November 20, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Keith Faber
Auditor of State

Columbus, Ohio

November 20, 2019

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The management's discussion and analysis of Napoleon Area City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2019 are as follows:

- In total, net position of governmental activities increased $42,918 which represents a 0.18% increase from 2018's net position.

- General receipts accounted for $22,280,577 in receipts or 81.34% of all receipts. Program specific receipts in the form of charges for services, grants and contributions accounted for $5,111,111 or 18.66% of total receipts of $27,391,688.

- The District had $27,348,770 in disbursements related to governmental activities; only $5,111,111 of these disbursements was offset by program-specific charges for services, grants or contributions. General receipts supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of $22,280,577 were adequate to provide for these programs.

- The District's major governmental funds are the general fund and the classroom facilities fund. The general fund had $22,686,209 in receipts and $22,638,620 in disbursements and other financing uses. During fiscal year 2019, the general fund's balance increased $47,589 from a balance of $16,499,222 to a balance of $16,546,811.

- The classroom facilities fund had $70,009 in receipts and $70,809 in disbursements. During fiscal year 2019, the classroom facilities fund's balance decreased $800 from $2,673,920 to $2,673,120.

**Using the Basic Financial Statements**

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

The District has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the District's cash basis of accounting, receipts and disbursements and the related assets and liabilities are recorded when they result in cash transactions.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion with this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

The statement of net position and statement of activities provide information about the activities of the whole District, presenting an aggregate view of the District's cash basis finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. The District's major funds for fiscal year 2019 were the general and classroom facilities funds.

## Reporting the District as a Whole

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

The statement of net position and the statement of activities reflect how the District did financially during fiscal year 2019, within the limitations of cash basis accounting. The statement of net position presents the cash balance of the governmental activities of the District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each function or program of the District's governmental activities. A function is a group of related activities designed to accomplish a major service or regulatory program for which the District is responsible.

Program receipts include charges paid by the receipt 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 are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identified how each governmental function draws from the District's general receipts.

These statements report the District's net position and changes in the net position on a cash basis. Factors which contribute to these changes may also include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, mandated federal and state programs and other factors.

In the statement of net position and the statement of activities, the governmental activities include District's programs and services including instruction, support services, operation and maintenance of plant, pupil transportation, non-instructional services, extracurricular activities, and food service operations.

## Reporting the District's Most Significant Funds

### *Fund Financial Statements*

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

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are general and classroom facilities funds.

### *Governmental Funds*

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund statements provide a detailed view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs. Since the District is reporting on the cash basis of accounting, there are no differences in the net assets and fund cash balances or changes in net assets and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements.

The District's budgetary process accounts for certain transactions on a cash basis. The budgetary statement for the general fund is presented to demonstrate the District's compliance with annually adopted budgets.

### *Fiduciary Funds*

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. All of the District's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary position.

### *Notes to the Financial Statements*

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

## The District as a Whole

The statement of net position provides the perspective of the District as a whole. The table below provides a summary of the District's net position at June 30, 2019 and June 30, 2018.

**Net Position**

| | Governmental Activities 2019 | Governmental Activities 2018 |
|---|---|---|
| **Assets:** | | |
| Equity in pooled cash and cash equivalents | $ 23,808,804 | $ 23,765,886 |
| **Net Position:** | | |
| Restricted | 7,267,051 | 7,267,101 |
| Unrestricted | 16,541,753 | 16,498,785 |
| Total net position | $ 23,808,804 | $ 23,765,886 |

The total net position of the District increased $42,918, which represents a 0.18% increase from fiscal year 2018. A portion of the District's net position, $7,267,051 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of $16,541,753 may be used to meet the District's ongoing obligations to the students and creditors.

The table below shows the change in net position for fiscal years 2019 and 2018.

**Change in Net Position**

| | Governmental Activities 2019 | Governmental Activities 2018 |
|---|---|---|
| **Receipts:** | | |
| Program receipts: | | |
| Charges for services and sales | $ 1,706,624 | $ 1,652,247 |
| Operating grants and contributions | 3,315,789 | 3,396,844 |
| Capital grants and contributions | 88,698 | 58,352 |
| General receipts: | | |
| Property taxes | 11,542,448 | 10,557,711 |
| Grants and entitlements | 10,115,276 | 10,320,351 |
| Payment in lieu of taxes | 27,908 | 190,093 |
| Investment earnings | 421,220 | 220,878 |
| Other | 173,725 | 103,255 |
| Total receipts | 27,391,688 | 26,499,731 |

*(Continued)*

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**Change in Net Position - (Continued)**

| | Governmental Activities 2019 | Governmental Activities 2018 |
|---|---|---|
| **Disbursements:** | | |
| Instruction: | | |
| Regular | $ 9,629,238 | $ 8,982,259 |
| Special | 4,006,181 | 3,898,759 |
| Vocational | 152,347 | 194,277 |
| Other | 1,651,373 | 1,631,178 |
| Support services: | | |
| Pupil | 1,368,991 | 1,383,160 |
| Instructional staff | 904,522 | 662,335 |
| Board of education | 46,778 | 47,027 |
| Administration | 1,366,645 | 1,359,476 |
| Fiscal | 468,654 | 573,324 |
| Operations and maintenance | 1,710,298 | 1,665,396 |
| Pupil transportation | 1,091,489 | 1,052,856 |
| Central | 183,014 | 178,507 |
| Operation of non-instructional services: | | |
| Other non-instructional services | 51,771 | 27,619 |
| Food service operations | 784,243 | 704,744 |
| Extracurricular activities | 1,024,580 | 881,032 |
| Facilities acquisition and construction | 486,073 | 426,045 |
| Debt service | 2,422,573 | 2,611,126 |
| Total disbursements | 27,348,770 | 26,279,120 |
| Change in net position | 42,918 | 220,611 |
| Net position at beginning of year | 23,765,886 | 23,545,275 |
| Net position at end of year | $ 23,808,804 | $ 23,765,886 |

## Governmental Activities

Net position of the District's governmental activities increased $42,918; total governmental disbursements of $27,348,770 were offset by program receipts of $5,111,111 and general receipts of $22,280,577. Program receipts supported 18.69% of the total governmental disbursements.

The primary sources of receipts for governmental activities are derived from property taxes and unrestricted grants and entitlements. These receipt sources represent 79.07% of total governmental receipts. Real estate property is reappraised every six years. Program receipts account for 18.66% of total receipts and are primarily represented by restricted intergovernmental receipts, charges for tuition and fees, extracurricular activities, and food service sales.

The largest disbursements of the District are for instructional programs, which are programs provided for pupils, instructional staff, operation and maintenance of plant, and pupil transportation, and account for 56.45% of all governmental disbursements.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by taxes and unrestricted grants and entitlements.

The table below presents a comparison between the total cost of services and the net cost for fiscal years 2019 and 2018.

**Governmental Activities**

| **Disbursements:** | Total Cost of Services 2019 | Net Cost of Services 2019 | Total Cost of Services 2018 | Net Cost of Services 2018 |
|---|---|---|---|---|
| Instruction: | | | | |
| Regular | $ 9,629,238 | $ 8,646,432 | $ 8,982,259 | $ 7,949,861 |
| Special | 4,006,181 | 1,804,169 | 3,898,759 | 1,676,397 |
| Vocational | 152,347 | 110,430 | 194,277 | 152,359 |
| Other | 1,651,373 | 1,651,373 | 1,631,178 | 1,631,178 |
| Support services: | | | | |
| Pupil | 1,368,991 | 1,327,589 | 1,383,160 | 1,368,364 |
| Instructional staff | 904,522 | 898,177 | 662,335 | 655,586 |
| Board of education | 46,778 | 46,778 | 47,027 | 47,027 |
| Administration | 1,366,645 | 1,364,787 | 1,359,476 | 1,357,594 |
| Fiscal | 468,654 | 460,393 | 573,324 | 566,005 |
| Business | | | | |
| Operations and maintenance | 1,710,298 | 1,701,843 | 1,665,396 | 1,657,903 |
| Pupil transportation | 1,091,489 | 573,806 | 1,052,856 | 505,788 |
| Central | 183,014 | 183,014 | 178,507 | 178,507 |
| Operations of non-instructional services: | | | | |
| Other non-instructional services | 51,771 | (769) | 27,619 | (442) |
| Food service operations | 784,243 | (29,314) | 704,744 | (68,007) |
| Extracurricular activities | 1,024,580 | 590,305 | 881,032 | 456,386 |
| Facilities acquisition and construction | 486,073 | 486,073 | 426,045 | 426,045 |
| Interest and fiscal charges | 2,422,573 | 2,422,573 | 2,611,126 | 2,611,126 |
| Total disbursements | $ 27,348,770 | $ 22,237,659 | $ 26,279,120 | $ 21,171,677 |

The dependence upon general receipts for governmental activities is apparent; with 81.31% of disbursements supported through taxes and other general receipts during 2019.

**Financial Analysis of the District's Funds**

The District's governmental funds are accounted for using the cash basis of accounting. Total governmental funds had receipts of $27,391,688 (excluding other financing sources) and disbursements of $27,348,770 (excluding other financing uses). The general fund experienced an increase in fund balance of $47,589 due to an increase in property taxes, transportation fees, earnings on investments, other local receipts and contributions and donations.

The classroom facilities fund experienced a $800 decrease in fund balance, as disbursements related to the District's Ohio Facilities Classroom Construction project were paid out. Final costs related to the construction project, which was completed in a prior fiscal year, are being paid from this fund.

## General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. During the course of fiscal year 2019, the District amended its general fund budget as needed.

General fund final and original budgeted receipts and other financing sources were $22,711,826 and $21,459,961, an increase of $1,251,865 (5.83%). This increase is primarily due to increasing estimates for property taxes, tuition, earnings on investments, and intergovernmental - federal receipts. Actual receipts and other financing sources were $22,711,988. This represents an increase of $162 from the final budget (a variance of less than 1 percent).

General Fund original appropriations (appropriated disbursements plus other financing uses) of $22,764,728 were increased to $22,934,030 in the final budget (for a variance of 0.74 %). The actual budget basis disbursements and other financing uses for fiscal year 2019 totaled $22,774,951, which was $159,079 (0.69%) less than the final budget appropriations. The District over appropriates in case significant, unexpected expenditures arise during the fiscal year, or as the District's reserves dwindle.

## Debt Administration

At June 30, 2019, the District's long-term obligations, which include general obligation bonds, energy conservation loan, and capital leases, were $30,079,814.

At June 30, 2019, the District's overall legal debt margin was $4,300,073 with an unvoted debt margin of $350,416.

For further information regarding the District's debt, see Note 10 to the basic financial statements.

## Current Issues Affecting Financial Condition

The District's facilities are kept in good condition with the use of permanent improvement funds. Approximately $430,000 per year is generated from the 2 mil continuing levy. This money is used to maintain the District facilities; to purchase 2 buses per year; and to update technology as well as to make other improvements to District facilities.

The District is a rural community experiencing little growth. Enrollment is expected to be relatively stable. The size of the District makes open enrollment a concern.

District voters approved a $30.8 million dollar bond issue in March 2013 which was being used to construct a new elementary school and make renovations to the current high school. The District moved into the new elementary school in January 2016.

## Contacting the District's Financial Management

This financial report is designed to provide our parents, citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional financial information should be directed to Michael R. Bostelman, Treasurer, Napoleon Area City School District, 701 Briarheath Avenue, Suite 108, Napoleon, Ohio 43545-1298.

**NAPOLEON AREA CITY SCHOOL DISTRICT**
**HENRY COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2019

| | Governmental Activities |
|---|---|
| **Assets:** | |
| Equity in pooled cash and cash equivalents. . . | $ 23,808,804 |
| | |
| **Net position:** | |
| Restricted for: | |
| Debt service. . . . . . . . . . . . . . . . . . | 2,247,673 |
| Capital projects . . . . . . . . . . . . . . . . | 3,771,972 |
| Classroom facilities maintenance . . . . . . . | 713,410 |
| Food service operations. . . . . . . . . . . . | 234,993 |
| State funded programs . . . . . . . . . . . . | 121,981 |
| Special education . . . . . . . . . . . . . . | 500 |
| Federally funded programs . . . . . . . . . . | 6,603 |
| Student activities . . . . . . . . . . . . . . . | 163,283 |
| Other purposes . . . . . . . . . . . . . . . . | 6,636 |
| Unrestricted . . . . . . . . . . . . . . . . . . | 16,541,753 |
| Total net position. . . . . . . . . . . . . . . . | $ 23,808,804 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT**
**HENRY COUNTY, OHIO**

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

| | | Program Reciepts | | | Net (Disbursements) Reciepts and Change in Net Position |
|---|---|---|---|---|---|
| | **Cash Disbursements** | **Charges for Services and Sales** | **Operating Grants and Contributions** | **Capital Grants and Contributions** | **Governmental Activities** |
| **Governmental activities:** | | | | | |
| Instruction: | | | | | |
| Regular | $ 9,629,238 | $ 730,133 | $ 169,975 | $ 82,698 | $ (8,646,432) |
| Special | 4,006,181 | 220,763 | 1,981,249 | - | (1,804,169) |
| Vocational | 152,347 | - | 41,917 | - | (110,430) |
| Other | 1,651,373 | - | - | - | (1,651,373) |
| Support services: | | | | | |
| Pupil | 1,368,991 | - | 41,402 | - | (1,327,589) |
| Instructional staff | 904,522 | - | 6,345 | - | (898,177) |
| Board of education | 46,778 | - | - | - | (46,778) |
| Administration | 1,366,645 | - | 1,858 | - | (1,364,787) |
| Fiscal | 468,654 | - | 8,261 | - | (460,393) |
| Operations and maintenance | 1,710,298 | 3,889 | 4,566 | - | (1,701,843) |
| Pupil transportation | 1,091,489 | 300 | 517,383 | - | (573,806) |
| Central | 183,014 | - | - | - | (183,014) |
| Operation of non-instructional services: | | | | | |
| Other non-instructional services | 51,771 | - | 52,540 | - | 769 |
| Food service operations | 784,243 | 369,206 | 444,351 | - | 29,314 |
| Extracurricular activities | 1,024,580 | 382,333 | 45,942 | 6,000 | (590,305) |
| Facilities acquisition and construction | 486,073 | | - | - | (486,073) |
| Debt service | 2,422,573 | - | - | - | (2,422,573) |
| Total governmental activities | $ 27,348,770 | $ 1,706,624 | $ 3,315,789 | $ 88,698 | (22,237,659) |

| | |
|---|---|
| **General reciepts:** | |
| Property taxes levied for: | |
| General purposes | 9,509,242 |
| Debt service | 1,633,469 |
| Capital outlay | 399,737 |
| Payments in lieu of taxes | 27,908 |
| Grants and entitlements not restricted to specific programs | 10,115,276 |
| Investment earnings | 421,220 |
| Miscellaneous | 173,725 |
| Total general receipts | 22,280,577 |
| Change in net position | 42,918 |
| **Net position at beginning of year** | 23,765,886 |
| **Net position at end of year** | $ 23,808,804 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT**
**HENRY COUNTY, OHIO**

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

| | General | Classroom Facilities | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **Assets:** | | | | |
| Equity in pooled cash and cash equivalents . . . | $ 16,546,811 | $ 2,673,120 | $ 4,588,873 | $ 23,808,804 |
| **Fund balances:** | | | | |
| Restricted: | | | | |
| Debt service . . . . . . . . . . . . . . . . . . | - | - | 2,247,673 | 2,247,673 |
| Capital improvements . . . . . . . . . . . . | - | 2,673,120 | 1,098,852 | 3,771,972 |
| Classroom facilities maintenance . . . . . . | - | - | 713,410 | 713,410 |
| Food service operations . . . . . . . . . . . | - | - | 234,993 | 234,993 |
| State funded programs . . . . . . . . . . . . . | - | - | 121,981 | 121,981 |
| Special education . . . . . . . . . . . . . . | - | - | 500 | 500 |
| Federally funded programs . . . . . . . . . | - | - | 6,603 | 6,603 |
| Student activities. . . . . . . . . . . . . . . | - | - | 163,283 | 163,283 |
| Other purposes. . . . . . . . . . . . . . . . | - | - | 6,636 | 6,636 |
| Assigned: | | | | |
| Student instruction . . . . . . . . . . . . . . | 17,619 | - | - | 17,619 |
| Student and staff support. . . . . . . . . . . | 108,257 | - | - | 108,257 |
| Extracurricular activities . . . . . . . . . . . | 14,400 | - | - | 14,400 |
| Subsequent year's appropriations . . . . . . | 747,525 | - | - | 747,525 |
| School supplies . . . . . . . . . . . . . . . . | 66,068 | - | - | 66,068 |
| Other purposes. . . . . . . . . . . . . . . . | 12,626 | - | - | 12,626 |
| Unassigned (deficit) . . . . . . . . . . . . . . | 15,580,316 | - | (5,058) | 15,575,258 |
| Total fund balances . . . . . . . . . . . . . . | $ 16,546,811 | $ 2,673,120 | $ 4,588,873 | $ 23,808,804 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT**
**HENRY COUNTY, OHIO**

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

| | General | Classroom Facilities | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **Receipts:** | | | | |
| From local sources: | | | | |
| Property taxes | $ 9,509,242 | $ - | $ 2,033,206 | $ 11,542,448 |
| Payment in lieu of taxes | 26,513 | - | 1,395 | 27,908 |
| Tuition | 839,305 | - | - | 839,305 |
| Transportation fees | 300 | - | - | 300 |
| Earnings on investments | 421,220 | 70,009 | 34,328 | 525,557 |
| Charges for services | - | - | 369,206 | 369,206 |
| Extracurricular | 108,487 | - | 265,415 | 373,902 |
| Classroom materials and fees | 83,771 | - | - | 83,771 |
| Rental income | 3,889 | - | 8,013 | 11,902 |
| Contributions and donations | 59,461 | - | 47,001 | 106,462 |
| Contract services | 27,820 | - | 418 | 28,238 |
| Other local receipts | 66,628 | - | 85,020 | 151,648 |
| Intergovernmental - state | 11,244,750 | - | 545,460 | 11,790,210 |
| Intergovernmental - federal | 294,823 | - | 1,246,008 | 1,540,831 |
| Total receipts | 22,686,209 | 70,009 | 4,635,470 | 27,391,688 |
| **Disbursements:** | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 9,477,460 | - | 151,778 | 9,629,238 |
| Special | 3,156,247 | - | 849,934 | 4,006,181 |
| Vocational | 152,347 | - | - | 152,347 |
| Other | 1,651,373 | - | - | 1,651,373 |
| Support services: | | | | |
| Pupil | 1,328,067 | - | 40,924 | 1,368,991 |
| Instructional staff | 890,020 | - | 14,502 | 904,522 |
| Board of education | 46,778 | - | - | 46,778 |
| Administration | 1,364,808 | - | 1,837 | 1,366,645 |
| Fiscal | 441,617 | - | 27,037 | 468,654 |
| Operations and maintenance | 1,616,123 | - | 94,175 | 1,710,298 |
| Pupil transportation | 1,091,489 | - | - | 1,091,489 |
| Central | 131,950 | - | 51,064 | 183,014 |
| Operation of non-instructional services: | | | | |
| Other non-instructional services | - | - | 51,771 | 51,771 |
| Food service operations | - | - | 784,243 | 784,243 |
| Extracurricular activities | 736,655 | - | 287,925 | 1,024,580 |
| Facilities acquisition and construction | 55,543 | 70,809 | 359,721 | 486,073 |
| Debt service: | | | | |
| Principal retirement | 256,837 | - | 897,451 | 1,154,288 |
| Interest and fiscal charges | 6,106 | - | 1,262,179 | 1,268,285 |
| Total disbursements | 22,403,420 | 70,809 | 4,874,541 | 27,348,770 |
| Excess (deficiency) of receipts over (under) disbursements | 282,789 | (800) | (239,071) | 42,918 |
| **Other financing sources (uses):** | | | | |
| Transfers in | - | - | 367,412 | 367,412 |
| Transfers (out) | (235,200) | - | (132,212) | (367,412) |
| Total other financing sources (uses) | (235,200) | - | 235,200 | - |
| Net change in fund balances | 47,589 | (800) | (3,871) | 42,918 |
| **Fund balances at beginning of year** | 16,499,222 | 2,673,920 | 4,592,744 | 23,765,886 |
| **Fund balances at end of year** | $ 16,546,811 | $ 2,673,120 | $ 4,588,873 | $ 23,808,804 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT**
**HENRY COUNTY, OHIO**

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

| | Budgeted Amounts | | | Variance with Final Budget Positive |
|---|---|---|---|---|
| | Original | Final | Actual | (Negative) |
| **Receipts:** | | | | |
| From local sources: | | | | |
| Property taxes | $ 8,220,000 | $ 9,509,242 | $ 9,509,242 | $ - |
| Payment in lieu of taxes | 181,000 | 26,513 | 26,513 | - |
| Tuition | 820,500 | 834,206 | 834,205 | (1) |
| Transportation fees | 2,000 | 300 | 300 | - |
| Earnings on investments | 150,000 | 420,000 | 420,161 | 161 |
| Classroom materials and fees | 41,500 | 40,460 | 40,460 | - |
| Rental income | 3,500 | 3,889 | 3,889 | - |
| Contributions and donations | 58,348 | 55,966 | 55,966 | - |
| Contract services | 209,300 | 27,820 | 27,820 | - |
| Other local receipts | 43,000 | 36,839 | 36,841 | 2 |
| Intergovernmental - state | 11,360,000 | 11,244,750 | 11,244,750 | - |
| Intergovernmental - federal | 175,000 | 294,823 | 294,823 | - |
| Total receipts | 21,264,148 | 22,494,808 | 22,494,970 | 162 |
| **Disbursements:** | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 9,179,243 | 9,546,951 | 9,543,991 | 2,960 |
| Special | 2,815,161 | 3,163,911 | 3,156,247 | 7,664 |
| Vocational | 182,478 | 156,059 | 152,347 | 3,712 |
| Other | 1,632,000 | 1,652,000 | 1,651,373 | 627 |
| Support services: | | | | |
| Pupil | 1,286,775 | 1,331,414 | 1,327,721 | 3,693 |
| Instructional staff | 977,058 | 915,898 | 899,371 | 16,527 |
| Board of education | 53,750 | 47,750 | 46,778 | 972 |
| Administration | 1,468,596 | 1,384,477 | 1,364,043 | 20,434 |
| Fiscal | 640,045 | 460,392 | 441,617 | 18,775 |
| Operations and maintenance | 1,709,064 | 1,694,926 | 1,676,435 | 18,491 |
| Pupil transportation | 1,113,513 | 1,128,130 | 1,092,348 | 35,782 |
| Central | 146,180 | 150,424 | 131,955 | 18,469 |
| Extracurricular activities | 646,201 | 646,108 | 637,039 | 9,069 |
| Facilities acquisition and construction | 86,497 | 55,647 | 55,543 | 104 |
| Debt service: | | | | |
| Principal retirement | 285,000 | 257,000 | 256,837 | 163 |
| Interest and fiscal charges | 13,943 | 6,943 | 6,106 | 837 |
| Total disbursements | 22,235,504 | 22,598,030 | 22,439,751 | 158,279 |
| Excess (deficiency) of receipts over (under) disbursements | (971,356) | (103,222) | 55,219 | 158,441 |
| **Other financing sources (uses):** | | | | |
| Refund of prior year disbursements | 25,000 | 87,318 | 87,318 | - |
| Transfers in | 100,000 | 100,000 | 100,000 | - |
| Transfers (out) | (370,000) | (336,000) | (335,200) | 800 |
| Contingencies | (159,224) | - | - | - |
| Sale of assets | 70,813 | 29,700 | 29,700 | - |
| Total other financing sources (uses) | (333,411) | (118,982) | (118,182) | 800 |
| Net change in fund balance | (1,304,767) | (222,204) | (62,963) | 159,241 |
| **Fund balance at beginning of year** | 16,204,749 | 16,204,749 | 16,204,749 | - |
| **Prior year encumbrances appropriated** | 186,055 | 186,055 | 186,055 | - |
| **Fund balance at end of year** | $ 15,086,037 | $ 16,168,600 | $ 16,327,841 | $ 159,241 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT**
**HENRY COUNTY, OHIO**

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

| | Private-Purpose Trust | Agency |
|---|---|---|
| **Assets:** | | |
| Equity in pooled cash and cash equivalents. . | $ 5,010 | $ 222,853 |
| | | |
| **Net position:** | | |
| Held in trust for scholarships. . . . . . . . . | $ 5,010 | $ - |
| Held for student activities . . . . . . . . . . | - | 222,853 |
| Total net position. . . . . . . . . . . . . . . | $ 5,010 | $ 222,853 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NAPOLEON AREA CITY SCHOOL DISTRICT**
**HENRY COUNTY, OHIO**

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

| | Private-Purpose Trust |
|---|---|
| **Additions:** | |
| Gifts and contributions. . . . . . . . . . . . | $ 21,000 |
| | |
| **Deductions:** | |
| Payments made in accordance with trust agreements . . . . . . . . . . . . . . . . | 24,000 |
| | |
| Change in net position . . . . . . . . . . . | (3,000) |
| | |
| **Net position at beginning of year. . . . .** | 8,010 |
| **Net position at end of year . . . . . . . .** | $ 5,010 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

## NOTE 1 - DESCRIPTION OF THE DISTRICT

Napoleon Area City School District (the 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 District is a city school district as defined by 3311.02 of Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District.

The District is staffed by 93 classified employees, 154 certified teaching personnel, and 13 administrators who provide services to 2,104 students and other community members. The Board of Education oversees the operations of the District's three instructional and support facilities.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 2.D., these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided. Following are the more significant of the District's accounting policies.

### A. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt, or the levying of taxes. The District does not have any component units. The following organizations are not part of the reporting entity and are excluded from the accompanying financial statements:

<u>Non-Public Schools</u> - Within the city boundaries, non-public schools are operated by religious organizations. Current state legislation provides funding to these non-public schools. These monies are received and disbursed on behalf of the non-public schools by the Treasurer of the District. The accounting for these school operations is reflected as part of the special revenue funds of the District.

The District is associated with nine organizations, which are defined as jointly governed organizations, group purchasing pools or related organizations. These organizations include the Northwest Ohio Computer Association (NWOCA), Northern Buckeye Educational Council, Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., the Educational Regional Service System, Northern Buckeye Health Plan Northwest Division of Optimal Health Initiative Consortium, Northern Buckeye Health Plan Workers' Compensation Group Rating Plan, the Schools of Ohio Risk Sharing Authority, and the Napoleon Public Library. Information about these organizations is presented in Notes 17, 18, and 19 to the basic financial statements.

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

### B. Basis of Presentation

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

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

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

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

*Fund Financial Statements* - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

### C. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental 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 resources are assigned to the various governmental funds according to the purposes for which they may or must be used. Following are the District's major governmental funds:

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

*Classroom facilities fund* - The classroom facilities capital projects fund is used to account for and report financial resources that are restricted to disbursements related to the District's construction project with the Ohio Facilities Construction Commission.

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

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

*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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's trust funds are private purpose trusts, which account for programs that provide college scholarships to students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds account for various student managed activity.

**D. Basis of Accounting**

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with GAAP, the District chooses to prepare its financial statements and notes on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than GAAP. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

Budgetary presentations report budgetary cash disbursements when a commitment is made (i.e. when an encumbrance is approved). The difference between disbursements reported in the fund and government-wide statements and disbursements reported in the budgetary statements is due to current year encumbrances being added to disbursements reported in the budgetary statements.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraphs.

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 bur not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

**E. Budgetary Process**

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Treasurer.

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

The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

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

### F. Pooled Cash and Investments

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

During fiscal year 2019, the District invested in nonnegotiable certificates of deposit and the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The District measures its 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 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding $25 million. STAR Ohio reserves the right to limit the transaction to $100 million, requiring the excess amount to be transacted the following business day(s), but only to the $100 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2019 amounted to $421,220, which includes $72,624 assigned from other funds.

For presentation on the financial statements, 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 District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

### G. 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 months that are not purchased from the pool are reported as investments.

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

### H. Inventory and Prepaid Items

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

### I. Capital Assets

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

### J. Interfund Receivables/Payables

The District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

### K. Compensated Absences

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

### L. Long-Term Obligations

Long-term obligations are not recognized as liabilities in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal and interest payments.

### M. Net Position

Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation or 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, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. All other net position that do not meet the definition of restricted are reported as unrestricted net position. 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 assets are available.

### N. Budget Stabilization

The District has established a budget stabilization reserve in accordance with authority established by State law. Additions to the budget stabilization reserve can only be made by formal resolution of the Board of Education. Expenditures out of the budget stabilization reserve can be made to offset future budget deficits or expenditures as approved by the Board of Education. At June 30, 2019, the balance in the budget stabilization reserve was $252,152. This amount is included in unassigned fund balance of the General Fund and in unassigned net position on the statement of net position.

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

### O. Fund Balance

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

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

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

*Committed* - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the 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 District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

*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 only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

### P. Interfund Transactions

Transfers between governmental activities on the government-wide statements are reported in the same manner as general receipts.

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

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

### Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2019.

### S. Pensions/Other Postemployment Benefits (OPEB)

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.

## NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

### A. Change in Accounting Principles

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

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

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

### B. Compliance

Ohio Administrative Code, §117-2-03 (B), requires the District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the 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 District can be fined and various other administrative remedies may be taken against the District.

### C. Deficit Fund Balances

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

| Nonmajor funds | Deficit |
|---|---|
| Title 1 Disadvantaged Children, nonmajor special revenue fund | $ 5,058 |

## NOTE 4 - EQUITY IN POOLED CASH AND EQUIVALENTS

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

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

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

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

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

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

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

4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool, the State Treasury Asset Reserve of Ohio (STAR Ohio);

7. Certain banker’s acceptance and commercial paper notes for a period not to exceed one-hundred-eighty days and two-hundred-seventy days, respectively, from the purchase date in an amount not to exceed forty percent of the interim monies available for investment at any one time; and,

8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

## NOTE 4 - EQUITY IN POOLED CASH AND EQUIVALENTS - (Continued)

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 District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

### A. Cash on Hand

At fiscal year-end, the District had $1,800 in undeposited cash on hand which is part of "Equity in Pooled Cash and Cash Equivalents".

### B. Deposits with Financial Institutions

At June 30, 2019, the carrying amount of all District deposits, as $16,018,186. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2019, $11,516,269 of the District's bank balance of $16,234,821 was covered by pledged collateral as discussed below, while $4,718,552 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the District and deposited with a qualified trustee by the financial institution as security for repayment whose fair value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total fair value of the securities pledged to be 102 percent of the deposits being secured or a reduced rate set by the Treasurer of State. For fiscal year 2019, the District's financial institutions were approved for a reduced collateral rate through the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the FDIC.

### C. Investments

As of June 30, 2019, the District had the following investment and maturity:

| | | Investment Maturity |
|---|---|---|
| Investment type | Amortized Cost | 6 months or less |
| STAR Ohio | $ 8,016,681 | $ 8,016,681 |

*Interest Rate Risk:* The District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the fair value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

## NOTE 4 - EQUITY IN POOLED CASH AND EQUIVALENTS - (Continued)

*Credit Risk*: Standard & Poor's has assigned STAR Ohio an AAAm money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District's investment policy does not address investment credit risk beyond the requirements of State statutes.

*Custodial Credit Risk*: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District's investment policy does not specifically address custodial credit risk beyond the adherence to all relevant sections of the Ohio Revised Code. Requirements in State statute prohibit payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board or qualified trustee.

*Concentration of Credit Risk:* The District places no dollar limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2019:

### D. Reconciliation of Cash and Investments to the Statement of Net Position

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

| | |
|---|---|
| Cash and investments per note | |
| Carrying amount of deposits | $16,018,186 |
| Investments | 8,016,681 |
| Cash on hand | 1,800 |
| Total | $24,036,667 |
| | |
| Cash and investments per statement of net position | |
| Governmental activities | $23,808,804 |
| Private purpose trust funds | 5,010 |
| Agency funds | 222,853 |
| Total | $24,036,667 |

## NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the fiscal year 2019 consisted of the following, as reported on the fund statements:

| Transfers from general fund to: | Amount |
|---|---|
| Nonmajor governmental funds: | |
| Education management information systems | $ 50,000 |
| Building | 185,200 |
| Total general fund transfers out | 235,200 |
| Transfers from nonmajor permanent improvement to: | |
| Nonmajor governmental fund: | |
| OSFC Project Maintenance Fund | 132,212 |
| Total transfers | $ 367,412 |

Transfers are used to move receipts from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted receipts collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfer into the OSFC Project Maintenance Fund is an annual requirement under the District's Ohio School Facilities (OSFC) project agreement.

## NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. The amount available to be advanced can vary based on the date the tax bills are sent.

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

The District receives property taxes from Henry County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2019, are available to finance fiscal year 2019 operations. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

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

**NOTE 6 - PROPERTY TAXES – (Continued)**

| | 2018 Second Half Collections | | 2019 First Half Collections | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| Agricultural/residential | $ 278,506,870 | 85 | $ 279,233,330 | 80 |
| Industrial/commercial | 43,971,140 | 13 | 51,232,730 | 15 |
| Public utility | 7,355,260 | 2 | 20,393,110 | 5 |
| Total | $ 329,833,270 | 100 | $ 350,859,170 | 100 |
| Tax rate per $1,000 of assessed valuation | $ 58.90 | | $ 58.90 | |

**NOTE 7 - PAYMENT IN LIEU OF TAXES**

The District has entered into agreements with a number of property owners under which the District has granted property tax abatements to those property owners. The property owners have agreed to make payments to the District which reflect all or a portion of the property taxes which the property owners would have paid if their taxes had not been abated. The property owner's contractual promise to make these payments in lieu of taxes generally continue until the agreement expires.

**NOTE 8 - TAX ABATEMENTS**

**Enterprise Zones**

The Henry County Commissioners, the Community Improvement Corporation of Henry County, and the Maumee Valley Planning Organization entered into property tax abatement agreements with local businesses under Enterprise Zone tax abatement agreements. Enterprise zones are designated areas of land in which businesses can receive tax incentives in the form of tax exemptions on eligible new investment. The Enterprise Zone Program provides tax exemptions for a portion of the value of new real property when the investment is made in conjunction with a project that includes job creation or job retention. These tax abatements reduce assessed value by a percentage agreed upon by all parties that authorize these types of agreements. The agreements affect the property tax receipts collected and distributed to the District. Under the agreements, the District property taxes were reduced by $101,126 during fiscal year 2019.

**NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE**

During fiscal year 2019 and in prior fiscal years, the District has entered into capital leases for the acquisition of buses and computer equipment. The leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers the benefits and risks of ownership to the lessee at the conclusion of the lease term. At inception, the bus lease was accounted for as pupil transportation disbursements in the permanent improvement nonmajor capital projects fund. At inception, the computer leases were accounted for as instructional staff disbursements in the general and permanent improvement nonmajor capital projects funds. Capital lease payments are shown as debt service disbursements in the General and Permanent Improvement funds. Principal payments made during fiscal year 2019 totaled $118,719 for the buses and $265,877 for computer equipment.

**NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE – (Continued)**

| Fiscal Year Ending June 30, | Amount |
|---|---|
| 2020 | $ 195,724 |
| 2021 | 195,274 |
| Total minimum lease payments | 390,998 |
| Less: amount representing interest | (12,833) |
| Total | $ 378,165 |

**NOTE 10 - DEBT**

**A.** During the year ended June 30, 2019, the following changes occurred in the District’s debt obligations:

| | Balance 06/30/18 | Additions | Reductions | Balance 06/30/19 | Amounts Due in One Year |
|---|---|---|---|---|---|
| **Governmental activities:** | | | | | |
| General obligation bonds, series 2012 | $ 30,010,000 | $ - | $ (525,000) | $ 29,485,000 | $ 540,000 |
| Energy conservation loan | 388,512 | - | (172,313) | 216,199 | 179,691 |
| EPA asbestos project | 72,379 | - | (72,379) | - | - |
| Capital lease obligations | 738,114 | 25,097 | (384,596) | 378,615 | 187,213 |
| Total debt obligations | $ 31,209,005 | $ 25,097 | $ (1,154,288) | $ 30,079,814 | $ 906,904 |

**B. School Facilities Construction and Improvement Bonds, Series 2012**

The bonds were used for the purpose of constructing, adding to, and renovating and improving school facilities under the State of Ohio Classroom Facilities Assistance Program and locally funded initiatives, furnishing and equipping the same, and improving the sites thereof. These bonds were issued on August 15, 2012 and consisted of $3,540,000 in serial bonds and $27,260,000 in term bonds.

| Maturity Date (December 1) | Principal Amount | Interest Rate |
|---|---|---|
| 2018 | $ 525,000 | 2.00% |
| 2019 | 540,000 | 2.00% |
| 2020 | 550,000 | 2.25% |
| 2021 | 560,000 | 2.50% |
| 2022 | 575,000 | 2.50% |

The interest payment dates for the bonds shall be June 1 and December 1, commencing on December 1, 2012. The serial bonds shall be those bonds scheduled to mature on December 1, 2012 through 2022.

The term bonds which mature on December 1, 2024, have an interest rate of 4 percent per year, and are subject to mandatory sinking fund redemption prior to stated maturity and payable pursuant to Mandatory Sinking Fund Redemption Requirements in principal amounts on the Principal Payment Dates (each a Mandatory Redemption Date) as follows:

**NOTE 10 - DEBT - (Continued)**

| Year | Principal Amount to be Redeemed |
|---|---|
| December 1, 2023 | $ 590,000 |
| December 1, 2024 | 615,000 |

The term bonds which mature on December 1, 2026, have an interest rate of 4 percent per year, and are subject to mandatory sinking fund redemption prior to stated maturity and payable pursuant to Mandatory Sinking Fund Redemption Requirements in principal amounts on the Principal Payment Dates (each a Mandatory Redemption Date) as follows:

| Year | Principal Amount to be Redeemed |
|---|---|
| December 1, 2025 | $ 635,000 |
| December 1, 2026 | 655,000 |

The term bonds which mature on December 1, 2028, have an interest rate of 3.125 percent per year, and are subject to mandatory sinking fund redemption prior to stated maturity and payable pursuant to Mandatory Sinking Fund Redemption Requirements in principal amounts on the Principal Payment Dates (each a Mandatory Redemption Date) as follows:

| Year | Principal Amount to be Redeemed |
|---|---|
| December 1, 2027 | $ 675,000 |
| December 1, 2028 | 695,000 |

The term bonds which mature on December 1, 2030, have an interest rate of 3.25 percent per year, and are subject to mandatory sinking fund redemption prior to stated maturity and payable pursuant to Mandatory Sinking Fund Redemption Requirements in principal amounts on the Principal Payment Dates (each a Mandatory Redemption Date) as follows:

| Year | Principal Amount to be Redeemed |
|---|---|
| December 1, 2029 | $ 720,000 |
| December 1, 2030 | 740,000 |

The term bonds which mature on December 1, 2032, have an interest rate of 3.5 percent per year, and are subject to mandatory sinking fund redemption prior to stated maturity and payable pursuant to Mandatory Sinking Fund Redemption Requirements in principal amounts on the Principal Payment Dates (each a Mandatory Redemption Date) as follows:

| Year | Principal Amount to be Redeemed |
|---|---|
| December 1, 2031 | $ 765,000 |
| December 1, 2032 | 795,000 |

The term bonds which mature on December 1, 2036, have an interest rate of 5 percent per year, and are subject to mandatory sinking fund redemption prior to stated maturity and payable pursuant to Mandatory Sinking Fund Redemption Requirements in principal amounts on the Principal Payment Dates (each a Mandatory Redemption Date) as follows:

**NOTE 10 - DEBT - (Continued)**

| Year | Principal Amount to be Redeemed |
|---|---|
| December 1, 2033 | $ 820,000 |
| December 1, 2034 | 860,000 |
| December 1, 2035 | 905,000 |
| December 1, 2036 | 950,000 |

The term bonds which mature on December 1, 2041, have an interest rate of 3.75 percent per year, and are subject to mandatory sinking fund redemption prior to stated maturity and payable pursuant to Mandatory Sinking Fund Redemption Requirements in principal amounts on the Principal Payment Dates (each a Mandatory Redemption Date) as follows:

| Year | Principal Amount to be Redeemed |
|---|---|
| December 1, 2037 | $ 1,000,000 |
| December 1, 2038 | 1,035,000 |
| December 1, 2039 | 1,075,000 |
| December 1, 2040 | 1,115,000 |
| December 1, 2041 | 1,155,000 |

The term bonds which mature on December 1, 2049, have an interest rate of 5 percent per year, and are subject to mandatory sinking fund redemption prior to stated maturity and payable pursuant to Mandatory Sinking Fund Redemption Requirements in principal amounts on the Principal Payment Dates (each a Mandatory Redemption Date) as follows:

| Year | Principal Amount to be Redeemed |
|---|---|
| December 1, 2042 | $ 1,200,000 |
| December 1, 2043 | 1,260,000 |
| December 1, 2044 | 1,320,000 |
| December 1, 2045 | 1,390,000 |
| December 1, 2046 | 1,460,000 |
| December 1, 2047 | 1,530,000 |
| December 1, 2048 | 1,610,000 |
| December 1, 2049 | 1,690,000 |

**C. Other Debt Obligations**

Energy Conservation Loan - The energy conservation loan was issued in 2006 for $2,060,000. The interest rate on the notes is 4.32 percent. The final maturity of this issuance is September 10, 2020.

EPA Asbestos Project - The asbestos settlement obligation was entered into by the District and the United States Environmental Protection Agency during 2009 for $1,238,545. This loan was interest free. A semi-annual payment was required to be made by the District until November 2018.

Capital leases payable - Refer to Note 9 to the notes to the basic financial statements for detail on the capital lease obligations.

**D.** The following is a summary of the future debt service requirements to maturity for the debt obligations outstanding.

**NOTE 10 - DEBT - (Continued)**

| | General Obligation Bonds, Series 2012 | | |
|---|---|---|---|
| Year Ended | Principal | Interest | Total |
| 2020 | $ 540,000 | $ 1,229,413 | $ 1,769,413 |
| 2021 | 550,000 | 1,217,825 | 1,767,825 |
| 2022 | 560,000 | 1,204,638 | 1,764,638 |
| 2023 | 575,000 | 1,190,450 | 1,765,450 |
| 2024 | 590,000 | 1,171,463 | 1,761,463 |
| 2025 - 2029 | 3,275,000 | 5,529,313 | 8,804,313 |
| 2030 - 2034 | 3,840,000 | 4,949,100 | 8,789,100 |
| 2035 - 2039 | 4,750,000 | 4,006,218 | 8,756,218 |
| 2040 - 2044 | 5,805,000 | 2,934,656 | 8,739,656 |
| 2045 - 2049 | 7,310,000 | 1,372,250 | 8,682,250 |
| 2050 | 1,690,000 | 42,250 | 1,732,250 |
| Total | $ 29,485,000 | $ 24,847,576 | $ 54,332,576 |

| | Energy Conservation Loan | | |
|---|---|---|---|
| Year Ended | Principal | Interest | Total |
| 2020 | $ 179,691 | $ 5,647 | $ 185,338 |
| 2021 | 36,508 | 222 | 36,730 |
| Total | $ 216,199 | $ 5,869 | $ 222,068 |

**E. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2019, are a voted debt margin of $4,300,073 (including available funds of $2,247,673) and an unvoted debt margin of $350,416.

**NOTE 11 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts, theft of or damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District participates in the Schools of Ohio Risk Sharing Authority (SORSA), Inc., an insurance purchasing pool, (Note 18.C) for insurance coverage. Coverages provided are as follows:

**NOTE 11 - RISK MANAGEMENT - (Continued)**

| | |
|---|---|
| Property (building & contents) | $ 71,805,612 |
| Equipment Breakdown (all members) | 300,000,000 |
| Automobile Liability | 15,000,000 |
| Educators' Legal Liability | 15,000,000 |
| Crime Coverage | 1,000,000 |
| General Liability: | |
| Per Occurrence | 15,000,000 |
| General Annual Aggregate | 17,000,000 |

Settled claims have not exceeded commercial coverage in any of the past three years, and there has been no significant reduction in insurance coverage from last year.

**B. Employee Insurance Benefits Program**

The District participates in the Northern Buckeye Health Plan (NBHP), Northwest Division of OHI, a self- insurance pool, for insurance benefits to employees. The District pays monthly premiums to NBHP for the benefits offered to its employees, which includes health, dental, vision and life insurance. NBHP is responsible for the management and operations of the program. The agreement with NBHP provides for additional assessment to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from NBHP, a participant is responsible for any claims not processed and paid and any related administrative costs.

**C. Workers' Compensation Group Program**

The District participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool (Note 18). The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

**NOTE 12 - COMPENSATED ABSENCES**

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Administrators/Supervisors, Clerical, Technical, and Maintenance and Operation employees with one or more years of service are entitled to vacation ranging from 5 to 25 days. Employees with less than one year of service do not earn vacation.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to a teacher upon retirement is limited to 25% of the accumulated sick leave to a maximum of 52.5 days. The amount paid to the Superintendent or Treasurer upon retirement is limited to 30% of the accumulated sick leave to a maximum of 75 days. The amount paid to a classified employee upon retirement is limited to 25% of the accumulated sick leave to a maximum of 55 days. The amount paid to an administrator/supervisor upon retirement is limited to 25% of the accumulated sick leave to a maximum of 55 days.

**NOTE 12 - COMPENSATED ABSENCES - (Continued)**

The amount paid to a confidential employee with a minimum of 5 years of service upon retirement is limited to 25% of the accumulated sick leave to a maximum of 55 days.

**Service Retirement Recognition Stipend**: Certified Bargaining Unit Members who first become eligible to retire from the District with unreduced benefits, who have at least ten years of service, who complete all scheduled work days in the year retiring and who are qualified for and receive service retirement benefits from STRS will be eligible for a service retirement recognition stipend (the stipend). The stipend will be a one-time cash payment of $9,000. In order to qualify for the stipend the member must give notice of intent to retire to the Superintendent or designee no later than March 1 of the year in which he/she is first eligible to retire as stated above and retire at the end of the school year. The stipend will be paid to the VALIC Special Pay Plan account of the person entitled thereto. Such payment shall be made no later than the last day of the month following the month in which the retiring employee submits evidence of the employee having received his/her first retirement check from the retirement system.

Confidential personnel with greater than ten years of experience at the District may receive $175 per year of service at retirement. Administrators/supervisors with a minimum of 5 years of experience are eligible for $1,000 per year of service not to exceed $10,000 in total.

**NOTE 13 - DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

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

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

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

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

**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

Age and service requirements for retirement are as follows:

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

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

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

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

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

The District's contractually required contribution to SERS was $372,466 for fiscal year 2019.

**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 30 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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

New members who choose the DC Plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2019, plan members were required to contribute 14% of their annual covered salary.

**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

The District was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was $1,406,241 for fiscal year 2019.

***Net Pension Liability***

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

Following is information related to the proportionate share:

| | SERS | STRS | Total |
|---|---|---|---|
| Proportion of the net pension liability prior measurement date | 0.08008270% | 0.08145136% | |
| Proportion of the net pension liability current measurement date | 0.07761350% | 0.08317892% | |
| Change in proportionate share | -0.00246920% | 0.00172756% | |
| Proportionate share of the net pension liability | $ 4,445,069 | $ 18,289,177 | $ 22,734,246 |

***Actuarial Assumptions - SERS***

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

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

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

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

**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

| | |
|---|---|
| Wage inflation | 3 percent |
| Future salary increases, including inflation | 3.50 percent to 18.20 percent |
| COLA or ad hoc COLA | 2.50 percent, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement |
| Investment rate of return | 7.50 percent net of investments expense, including inflation |
| Actuarial cost method | Entry age normal (level percent of payroll) |

For 2018, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

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

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

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

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

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

**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

***Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.5 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| District's proportionate share of the net pension liability | $ 6,261,215 | $ 4,445,069 | $ 2,922,352 |

***Actuarial Assumptions - STRS***

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

| | July 1, 2018 |
|---|---|
| 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 | 3.00 percent |
| Cost-of-living adjustments COLA) | 0.00 percent effective July 1, 2017 |

For the July 1, 2018, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 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% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

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

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

## NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

***Discount Rate -*** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

***Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate -*** The following table presents the 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 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%) |
|---|---|---|---|
| District's proportionate share of the net pension liability | $ 26,708,935 | $ 18,289,177 | $ 11,162,994 |

## NOTE 14 - DEFINED BENEFIT OPEB PLANS

***Net OPEB Liability/Asset***

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

**NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)**

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

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

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

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

Health Care Plan Description - The 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 Chapter 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 2019, 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 2019, this amount was $21,600.

**NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)**

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 2019, the District's surcharge obligation was $43,199.

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 District's contractually required contribution to SERS was $56,994 for fiscal year 2019.

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

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

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, 2019, STRS did not allocate any employer contributions to post-employment health care.

***Net OPEB Liability/Asset***

The net OPEB liability/asset was measured as of June 30, 2018, and the total OPEB liability/asset used to calculate the net OPEB liability/asset was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability/asset was based on the 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 | 0.08130570% | 0.08145136% | |
| Proportion of the net OPEB liability/asset current measurement date | 0.07887160% | 0.08317892% | |
| Change in proportionate share | -0.00243410% | 0.00172756% | |
| Proportionate share of the net OPEB liability | $ 2,188,111 | $ - | $ 2,188,111 |
| Proportionate share of the net OPEB asset | $ - | $ 1,336,600 | $ 1,336,600 |

***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.

**NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)**

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, 2018, are presented below:

| | |
|---|---|
| Wage inflation | 3 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 | 3.62 percent |
| Prior measurement date | 3.56 percent |
| Single equivalent interest rate, net of plan investment expense, including price inflation: | |
| Measurement date | 3.70 percent |
| Prior measurement date | 3.63 percent |
| Medical trend assumption: | |
| Medicare | 5.375 to 4.75 percent |
| Pre-Medicare | 7.25 to 4.75 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.

**NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)**

The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

| 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 discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 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 3.62 percent, as of June 30, 2018 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. A municipal bond rate of 3.56 percent was used as of June 30, 2017. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

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

| | 1% Decrease (2.70%) | Current Discount Rate (3.70%) | 1% Increase (4.70%) |
|---|---|---|---|
| District's proportionate share of the net OPEB liability | $ 2,655,101 | $ 2,188,111 | $ 1,818,343 |

**NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)**

| | 1% Decrease (6.25 % decreasing to 3.75 %) | Current Trend Rate (7.25 % decreasing to 4.75 %) | 1% Increase (8.25 % decreasing to 5.75 %) |
|---|---|---|---|
| District's proportionate share of the net OPEB liability | $ 1,765,404 | $ 2,188,111 | $ 2,747,851 |

***Actuarial Assumptions - STRS***

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

| | July 1, 2018 | | July 1, 2017 |
|---|---|---|---|
| Inflation | 2.50 percent | | 2.50 percent |
| Projected salary increases | 12.50 percent at age 20 to 2.50 percent at age 65 | | 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 | | 7.45 percent, net of investment expenses, including inflation |
| Payroll increases | 3.00 percent | | 3.00 percent |
| Cost-of-living adjustments (COLA) | 0.00 percent | | 0.00 percent, effective July 1, 2017 |
| Discounted rate of return | 7.45 percent | | N/A |
| Blended discount rate of return | N/A | | 4.13 percent |
| Health care cost trends | | | 6 to 11 percent initial, 4.50 percent ultimate |
| | Initial | Ultimate | |
| Medical | | | |
| Pre-Medicare | 6.00 percent | 4.00 percent | |
| Medicare | 5.00 percent | 4.00 percent | |
| Prescription Drug | | | |
| Pre-Medicare | 8.00 percent | 4.00 percent | |
| Medicare | -5.23 percent | 4.00 percent | |

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

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

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

**NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)**

***Assumption Changes Since the Prior Measurement Date*** - The discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB). Valuation year per capita health care costs were updated.

***Benefit Term Changes Since the Prior Measurement Date*** - The subsidy multiplier for non-Medicare benefit recipients was increased from 1.90 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

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

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

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

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

***Discount Rate*** - The discount rate used to measure the total OPEB asset was 7.45 percent as of June 30, 2018. A 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 projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was used to measure the total OPEB asset as of June 30, 2018.

***Sensitivity of the District's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate*** - The following table represents the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower 6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

## NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

| | 1% Decrease (6.45%) | Current Discount Rate (7.45%) | 1% Increase (8.45%) |
|---|---|---|---|
| District's proportionate share of the net OPEB asset | $ 1,145,592 | $ 1,336,600 | $ 1,497,134 |

| | 1% Decrease | Current Trend Rate | 1% Increase |
|---|---|---|---|
| District's proportionate share of the net OPEB asset | $ 1,488,072 | $ 1,336,600 | $ 1,182,769 |

## NOTE 15 - SET-ASIDES

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

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

| | Capital Acquisition |
|---|---|
| Set-aside balance June 30, 2018 | $ - |
| Current year set-aside requirement | 356,040 |
| Current year qualifying disbursements | (131,865) |
| Current year offsets | (415,505) |
| Total | $ (191,330) |
| Balance carried forward to fiscal year 2020 | $ - |

## NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The statement of cash receipts, disbursements and change in fund balance - budget and actual (budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and the cash basis are that:

(a) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of a cash

**NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

disbursement, as opposed to assigned, committed, or restricted fund cash balance for that portion of outstanding encumbrances (cash basis); and,

(b) Some funds are included in the general fund (cash basis) but have separate legally adopted budgets (budget basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the cash basis for the general fund is as follows:

**Net Change in Fund Balance**

| | General Fund |
|---|---|
| Budget basis | $ (62,963) |
| Funds budgeted elsewhere | 6,253 |
| Adjustment for encumbrances | 104,299 |
| Cash basis | $ 47,589 |

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the uniform school supplies fund, rotary funds, and public school support fund.

**NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Computer Association**

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, and Williams Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members. There were no disbursements made by the District to NWOCA during this fiscal year. Financial information can be obtained from Tammy Butler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**B. Northern Buckeye Education Council**

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, and Williams counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC during this fiscal year were $99,191. To obtain financial information write to the Northern Buckeye Education Council, Tammy Butler, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS - (Continued)**

**C. Four County Career Center**

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center - one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city districts; and one representative from each of the

exempted village districts. The Four County Career Center possesses its own budgeting and taxing authority. Total disbursements made by the District to Four County Career Center amounted to $2,186 during the fiscal year. To obtain financial information write to the Four County Career Center, Connie Nicely, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**D. Northwestern Ohio Educational Research Council, Inc.**

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials and provide opportunities for training. The NOERC serves a twenty-five county area of Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. There were no disbursements made by the District to NOERC during this fiscal year. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., P.O. Box 456, Ashland, Ohio 44805.

**E. Educational Regional Service System**

The Educational Regional Services System (the System) is a jointly governed organization among the school districts in Defiance, Fulton, Hancock, Henry, Lucas, Ottawa, Paulding, Putnam, Sandusky, Seneca, Van Wert, Williams, and Wood counties. House Bill 115 established the System and required the creation of a coordinated, integrated, and aligned system to support state and school district efforts to improve school effectiveness and student achievement.

The System is a 16-region system consisting of a State Regional Alliance Advisory Board, an advisory council and five specialized subcommittees for each of the 16 regions, a fiscal agent for each region, educational service centers, special education regional resources centers, data acquisition sites, and other regional service providers. The 34-member State Regional Alliance Advisory Board is not a policymaking body. Members are to receive no compensation. The board’s duties are to promote communication and coordination among the State Board of Education, the Department of Education, fiscal agents, advisory councils, and customers of the System. The degree of control exercised by any participating school district is limited to its representation on the Board. The District contributed a total of $988,592 to the System during this fiscal year. Financial information can be obtained from the Lucas County Educational Service Center, 2275 Collingwood, Toledo, Ohio, 43620.

**NOTE 18 - GROUP PURCHASING POOLS**

**A. Northern Buckeye Health Plan Northwest Division of OHIC**

The District participates in a group health insurance pool through the Optimal Health Initiative Consortium (OHI) Insurance Benefits Program (the Pool) a public entity shared risk pool consisting of

## NOTE 18 - GROUP PURCHASING POOLS – (Continued)

educational entities throughout the state. The Pool is governed by OHI and its participating members. The District contributed a total of $2,680,351 to Northern Buckeye Health Plan, Northwest Division of OHI for all four plans. Financial information for the period can be obtained from Jenny Jostworth, Treasurer, at 10999 Reed Hartman Hwy., Suite 304E, Cincinnati, Ohio 45242.

### B. Northern Buckeye Health Plan Workers' Compensation Group Rating Plan

The District participates in a group-rating plan for workers' compensation as established under §4123.29 of the Ohio Revised Code. The Ohio Health Initiatives (OHI) Workers' Compensation Group Rating Plan (WCGRP) was established through the OHI as a group purchasing pool. The group was formed to create a workers' compensation group rating plan which would allow employers to group together to achieve a potentially lower premium rate than they may otherwise be able to acquire as individual employers. OHI has created a workers' compensation group rating and risk management program which will potentially reduce the workers' compensation premiums for the District.

OHI has retained Sheakley UniService as the servicing agent to perform administrative, actuarial, cost control, claims, and safety consulting services and unemployment claims services for program participants. During this fiscal year, the District made $988 to WCGRP to cover the costs of administering the program.

### C. Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA), which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code – Non-Profit Corporations and functioning under authority granted by § 2744.081 of the Ohio Revised Code. SORSA's purpose is to provide a joint self-insurance pool and to assist member school districts in preventing and reducing losses and injuries to property and persons that might result in claims being made against members of SORSA, their employees or officers. The District paid $96,768 for these services to SORSA in fiscal year 2019.

A nine-person Board of Directors manages the business and affairs of SORSA and is elected annually by the members of the pool. The Board of Directors consists of Superintendents, Treasurers, or Business Managers from the participating school districts. Willis Pooling administers the pool and Carter Raynes Service Company manages the claims. Financial information can be obtained from Willis Pooling, 655 Metro Place South, Dublin, Ohio 43017.

## NOTE 19 - RELATED ORGANIZATION

### Napoleon Public Library

The Napoleon Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Napoleon Area City School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires, and fires personnel, and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Napoleon Public Library, at 310 West Clinton Street, Napoleon, Ohio 43545.

## NOTE 20 - CONTINGENCIES

### A. Grants

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

### B. Litigation

The District is not party to legal proceedings which, in the opinion of District management, will have a material effect, if any, on the financial condition of the District.

### C. Foundation Funding

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Traditional 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 District, which can extend past the fiscal year-end.

The District's August 23, 2019 foundation settlement receipt included the first FTE adjustment for fiscal year 2019. For the District, this resulted in a total increase of $581, which was added to the August 23, 2019 receipt. This amount is not material to the financial statements and is not included in the financial statements as of June 30, 2019 on the cash basis of accounting. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2019 foundation funding for the District; therefore, the final financial statement impact is not determinable at this time.

## NOTE 21 - OTHER COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

| Fund | Year-End Encumbrances |
|---|---|
| General | $ 108,136 |
| Classroom facilities | 34,241 |
| Nonmajor governmental | 107,715 |
| Total | $ 250,092 |

## NOTE 22 - SIGNIFICANT SUBSEQUENT EVENTS

The District hired Mr. Erik Belcher as the new Superintendent effective August 1, 2019.

**NAPOLEON AREA CITY SCHOOL DISTRICT**
**HENRY COUNTY**

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

| **FEDERAL GRANTOR**<br>***Pass Through Grantor***<br>**Program / Cluster Title** | **Federal CFDA Number** | **Passed Through to Subrecipients** | **Total Federal Expenditures** |
|---|---|---|---|
| **U.S. DEPARTMENT OF AGRICULTURE** | | | |
| ***Passed Through Ohio Department of Education*** | | | |
| Child Nutrition Cluster: | | | |
| School Breakfast Program | 10.553 | | $72,012 |
| National School Lunch Program | 10.555 | | |
| Cash Assistance | | | 324,950 |
| Non-Cash Assistance (Food Distribution) | | | 70,884 |
| Total National School Lunch Program | | | 395,834 |
| Total Child Nutrition Cluster | | | 467,846 |
| Total U.S. Department of Agriculture | | | **467,846** |
| **U.S. DEPARTMENT OF EDUCATION** | | | |
| ***Passed Through Ohio Department of Education*** | | | |
| Title I Grants to Local Educational Agencies - FY 18 | 84.010 | | 29,273 |
| Title I Grants to Local Educational Agencies - FY 19 | 84.010 | | 251,928 |
| Total Title I Grants to Local Educational Agencies | | | 281,201 |
| Special Education Cluster: | | | |
| Special Education Grants to States | 84.027 | $467,523 | 469,598 |
| Special Education Preschool Grants | 84.173 | 17,674 | 20,829 |
| Total Special Education Cluster | | 485,197 | 490,427 |
| English Language Acquisition State Grants | 84.365 | 2,485 | 2,485 |
| Supporting Effective Instruction State Grants - FY 18 | 84.367 | | (2,015) |
| Supporting Effective Instruction State Grants - FY 19 | 84.367 | | 54,068 |
| Total Supporting Effective Instruction State Grants | | | 52,053 |
| Student Support and Academic Enrichment Program | 84.424 | | 25,241 |
| Total U.S. Department of Education | | **487,682** | **851,407** |
| **Total Federal Awards Expenditures** | | **$487,682** | **$1,319,253** |

*The accompanying notes are an integral part of this schedule.*

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

## NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Napoleon Area City School District, Henry County, Ohio (the District's) under programs of the federal government for the year ended June 30, 2019. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

## NOTE C – INDIRECT COST RATE

The District has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

## NOTE D - SUBRECIPIENTS

The District passes certain federal awards received from the Ohio Department of Education (ODE) to other governments or not-for-profit agencies (subrecipients). As Note B describes, the District reports expenditures of Federal awards to subrecipients when paid in cash.

As a subrecipient, the District has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals.

## NOTE E - CHILD NUTRITION CLUSTER

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

## NOTE F – FOOD DONATION PROGRAM

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

## NOTE G - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amounts from 2019 to 2020 programs:

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019
(Continued)**

## NOTE G - TRANSFERS BETWEEN PROGRAM YEARS – (Continued)

| Program Title | CFDA Number | Amt. Transferred |
|---|---|---|
| Title I Grants to Local Educational Agencies | 84.010 | $ 21,374 |
| Special Education Grants to States - IDEA Restoration Grant | 84.027A | 6,166 |
| Special Education Preschool Grants - Preschool Restoration Grant | 84.173A | 1 |
| Supporting Effective Instruction State Grants | 84.367 | 4,101 |
| Student Support and Academy Enrichment Program | 84.424 | 3,732 |

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

Napoleon Area City School District
Henry County
701 Briarheath Avenue
Napoleon, Ohio 43545-1298

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 Napoleon Area City School District, Henry County, Ohio (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 20, 2019, wherein we noted the 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 District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

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

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

***Compliance and Other Matters***

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2019-001.

***District's Response to Findings***

The District's response to the finding identified in our audit is described in the accompanying corrective action plan. We did not subject the 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 District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Keith Faber

Keith Faber
Auditor of State

Columbus, Ohio

November 20, 2019

OHIO AUDITOR OF STATE
KEITH FABER

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

Napoleon Area City School District
Henry County
701 Briarheath Avenue
Napoleon, Ohio 43545-1298

To the Board of Education:

***Report on Compliance for Each Major Federal Program***

We have audited Napoleon Area City School District, Henry County, Ohio's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect Napoleon Area City School District's major federal programs for the year ended June 30, 2019. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, Napoleon Area City School District, Henry County, Ohio complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each major federal program for the year ended June 30, 2019.

***Report on Internal Control Over Compliance***

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

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

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

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

Keith Faber

Keith Faber
Auditor of State

Columbus, Ohio

November 20, 2019

**NAPOLEON AREA CITY SCHOOL DISTRICT**
**HENRY COUNTY**

**SCHEDULE OF FINDINGS**
**2 CFR § 200.515**
**JUNE 30, 2019**

## 1. SUMMARY OF AUDITOR'S RESULTS

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

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

### FINDING NUMBER 2019-001

**Noncompliance**

**Ohio Rev. Code §117.38(A)** 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 Admin. Code § 117-2-03(B)**, which further clarifies the requirements of Ohio Rev. Code § 117.38, requires the District to file annual financial reports which are prepared using generally accepted accounting principles (GAAP).

The District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumed material, cannot be determined at this time.

Pursuant to Ohio Rev. Code § 117.38 the District may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the District's ability to evaluate and monitor the overall financial condition of the District. To help provide the users with more meaningful financial statements, the District should prepare its annual financial statements according to generally accepted accounting principles.

**Officials' Response:**

See corrective action plan.

## 3. FINDINGS FOR FEDERAL AWARDS

None

# NAPOLEON AREA CITY SCHOOLS

**BOARD OF EDUCATION**
Ty A. Otto, President
Marcia S. Bruns, Vice President
Frank S. Cashman, Member
Rob M. Rettig, Member
Michael J. Wesche, Member

701 Briarheath Avenue, Suite 108
Napoleon, Ohio 43545

*Mr. Erik Belcher, Superintendent*

**ADMINISTRATIVE OFFICE**
PHONE 419-599-7015
FAX 419-599-7035

**TREASURER**
Michael R. Bostelman

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
## 2 CFR 200.511(b)
## JUNE 30, 2019

| Finding Number | Finding Summary | Status | Additional Information |
|---|---|---|---|
| 2018-001 | Noncompliance under ORC § 117.38 and § 117-2-03(B) for failure to prepare GAAP financial statements. | Not corrected and repeated as Finding 2019-001 in this report. | This finding reoccurred as a cost saving measure to the District. Management believes reporting on a basis of accounting other than generally accepted accounting principles (GAAP) is more cost efficient. |
| 2018-002 | Material weakness over fund balance classification due to significant errors in GASB 54 classifications. | Fully corrected. | |

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701 Briarheath Avenue, Suite 108
Napoleon, Ohio 43545

*Mr. Erik Belcher, Superintendent*

**ADMINISTRATIVE OFFICE**
PHONE 419-599-7015
FAX 419-599-7035

**TREASURER**
Michael R. Bostelman


**CORRECTIVE ACTION PLAN**
**2 CFR § 200.511(c)**
**JUNE 30, 2019**

| | |
|---|---|
| **Finding Number:** | 2019-001 |
| **Planned Corrective Action:** | Management believes reporting on a basis of accounting other than generally accepted accounting principles (GAAP) is more cost efficient. |
| **Anticipated Completion Date:** | N/A |
| **Responsible Contact Person:** | Mike Bostelman, Treasurer |

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OHIO AUDITOR OF STATE
KEITH FABER

**NAPOLEON AREA CITY SCHOOL DISTRICT**

**HENRY 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**
**DECEMBER 5, 2019**

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