

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2018***

OHIO AUDITOR OF STATE KEITH FABER



Board of Education
New Knoxville Local School District
345 South Main Street
New Knoxville, Ohio 45871

We have reviewed the *Independent Auditor's Report* of the New Knoxville Local School District, Auglaize County, prepared by Julian & Grube, Inc., for the audit period July 1, 2017 through June 30, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

April 1, 2019

This page intentionally left blank.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY, OHIO**

TABLE OF CONTENTS

Independent Auditor’s Report	1 - 2
Management’s Discussion and Analysis	3 - 11
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position - Cash Basis	12
Statement of Activities - Cash Basis	13
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balances -	
Governmental Funds	14
Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balances -	
Governmental Funds	15
Statement of Receipts, Disbursements and Changes in Fund Balance -	
Budget and Actual (Non-GAAP Budgetary Basis) - General Fund	16
Statement of Cash Basis Fiduciary Net Position - Fiduciary Funds	17
Statement of Cash Basis Change in Fiduciary Net Position -	
Private Purpose Trust Fund.....	18
Notes to the Basic Financial Statements.....	19 - 54
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	55 - 56
Schedule of Findings and responses	57 - 58
Status of Prior Audit Findings	59

This page intentionally left blank.



Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

New Knoxville Local School District
Auglaize County
P.O. Box 476
345 South Main Street
New Knoxville, Ohio 45871

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Accounting Basis

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

Other Matters

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2019, on our consideration of the New Knoxville Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the New Knoxville Local School District's internal control over financial reporting and compliance.



Julian & Grube, Inc.
February 26, 2019

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

The management's discussion and analysis of the New Knoxville Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the year ended June 30, 2018, within the limitations of the School District's cash basis of accounting. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the cash-basis financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2018 are as follows:

- The total net cash position of the School District increased \$583,827 or 12.21% from fiscal year 2017.
- General cash receipts accounted for \$5,000,305 or 83.19% of total governmental activities cash receipts. Program specific cash receipts accounted for \$1,010,376 or 16.81% of total governmental activities cash receipts.
- The School District had \$5,426,854 in cash disbursements related to governmental activities; \$1,010,376 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts (primarily taxes and grants and entitlements) of \$5,000,305 were adequate to provide for these programs.
- The School District's major funds are the general fund and the bond retirement fund. The general fund had cash receipts of \$5,088,404 in fiscal year 2018. The cash disbursements and other financing uses of the general fund totaled \$4,677,199 in 2018. The general fund's cash balance increased \$411,205 or 12.23% from fiscal year 2017 to fiscal year 2018.
- The bond retirement fund had cash receipts of \$406,701 and cash disbursements of \$381,038 in 2018. The bond retirement fund's cash balance increased \$25,663 or 3.57% from 2017 to 2018.

Using the Basic Financial Statements (BFS)

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 School District's cash basis of accounting.

The statement of net position - cash basis and statement of activities - cash basis provide information about the activities of the whole School District, presenting an aggregate view of the School District's cash basis finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the School District, there are two major governmental funds, the general fund and the bond retirement fund.

Reporting the School District as a Whole

Statement of Net Position - Cash Basis and the Statement of Activities - Cash Basis

The statement of net position - cash basis and statement of activities - cash basis answer the question, "How did we do financially during 2018?" These statements include *only net position* using the *cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

These two statements report the School District's net cash position and changes in those assets on a cash basis. This change in net cash position is important because it tells the reader that, for the School District as a whole, the cash basis financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated federal and state programs and other factors.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

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

The statement of net position - cash basis and statement of activities - cash basis can be found on pages 12-13 of this report.

Reporting the School 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 School 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 School District can be divided into two categories: governmental funds and fiduciary funds.

Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the bond retirement fund. The analysis of the School District's major governmental funds begins on page 9.

Governmental Funds

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principals generally accepted in the United States of America. The governmental fund statements provide a detailed view of the School District's general government operations and the basic services it provides.

Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various School District programs. Since the School District is reporting on the cash basis of accounting, there are no differences in the net cash position and fund cash balances or changes in net cash position and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements. The governmental fund statements can be found on pages 14-15 of this report.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

The School District’s budgetary process accounts for certain transactions on a cash basis. The budgetary statement for the general fund is presented to demonstrate the School District’s compliance with annually adopted budgets. The budgetary statement can be found on page 16 of this report.

Fiduciary Funds

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

The School District’s only fiduciary funds are a private-purpose trust fund and an agency fund. All of the School District’s fiduciary activities are reported in separate statements of fiduciary net position cash basis and changes in fiduciary net position cash basis on pages 17-18. These activities are excluded from the School District’s other financial statements because the assets cannot be utilized by the School District to finance its operations.

Notes to the Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-54 of this report.

Government-Wide Financial Analysis

Recall that the statement of net position - cash basis provides the perspective of the School District as a whole.

The table below provides a summary of the School District’s net cash position at June 30, 2018 and June 30, 2017.

	Net Cash Position	
	Governmental Activities 2018	Governmental Activities 2017
	<u>2018</u>	<u>2017</u>
Assets		
Equity in pooled cash and cash equivalents	\$ 5,365,664	\$ 4,781,837
Total assets	<u>5,365,664</u>	<u>4,781,837</u>
Net Cash Position		
Restricted	1,252,490	1,186,033
Unrestricted	<u>4,113,174</u>	<u>3,595,804</u>
Total net cash position	<u>\$ 5,365,664</u>	<u>\$ 4,781,837</u>

The total net cash position of the School District increased \$583,827 which represents a 12.21% increase from fiscal year 2017. The balance of government-wide unrestricted net cash position of \$4,113,174 may be used to meet the government’s ongoing obligations to citizens and creditors.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

The table below shows the changes in net cash position for fiscal year 2018 and 2017.

	Change in Net Cash Position	
	Governmental Activities 2018	Governmental Activities 2017
	<u>2018</u>	<u>2017</u>
Cash Receipts:		
Program cash receipts:		
Charges for services and sales	\$ 659,437	\$ 593,638
Operating grants and contributions	246,439	294,140
Capital grants and contributions	104,500	-
	<u>1,010,376</u>	<u>887,778</u>
Total program cash receipts		
General cash receipts:		
Property and other taxes	1,576,990	1,597,836
Income taxes	749,713	780,426
Unrestricted grants:		
Operating	2,618,103	2,598,894
Investment earnings	34,512	22,862
Sale of refunding bonds	-	1,355,000
Premium on sale of refunding bonds	-	83,067
Other	20,987	72,392
	<u>5,000,305</u>	<u>6,510,477</u>
Total general cash receipts		
Total cash receipts	<u>6,010,681</u>	<u>7,398,255</u>

- Continued

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Change in Net Cash Position	
	Governmental Activities 2018	Governmental Activities 2017
	<u>2018</u>	<u>2017</u>
Cash Disbursements:		
Instruction:		
Regular	\$ 2,648,031	\$ 2,565,469
Special	392,331	323,580
Support services:		
Pupil	160,740	154,122
Instructional staff	172,513	261,001
Board of education	13,604	18,492
Administration	363,762	366,750
Fiscal	147,152	212,691
Operations and maintenance	513,946	510,364
Pupil transportation	76,184	193,780
Central	6,753	3,477
Operation of non instructional services	166,981	150,913
Extracurricular	267,322	299,996
Facilities acquisition and construction	-	5,451
Debt service:		
Principal retirement	250,383	178,469
Interest and fiscal charges	247,152	233,180
Bond issuance costs	-	33,175
Payment to refunded bond escrow	-	1,404,513
Total cash disbursements	<u>5,426,854</u>	<u>6,915,423</u>
Change in net cash position	583,827	482,832
Net cash position at beginning of year	<u>4,781,837</u>	<u>4,299,005</u>
Net cash position at end of year	<u>\$ 5,365,664</u>	<u>\$ 4,781,837</u>

Governmental Activities

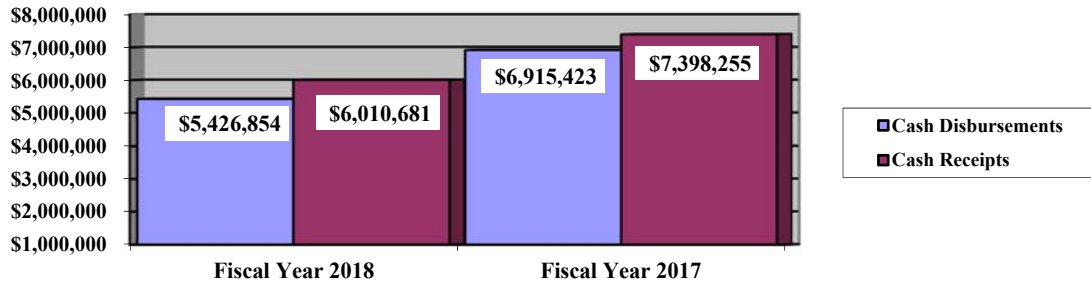
Governmental net cash position increased by \$583,827 in fiscal year 2018 from fiscal year 2017. Total governmental disbursements of \$5,426,854 were offset by program receipts of \$1,010,376 and general receipts of \$5,000,305. Program receipts supported 18.62% of the total governmental disbursements. The largest governmental disbursement was instructional expenditures which totaled \$3,040,362.

The primary sources of receipts for governmental activities are derived from taxes, and unrestricted grants and entitlements. These receipt sources represent 82.27% of total governmental receipts. Real estate property is reappraised every six years.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Governmental Activities - Total Cash Receipts vs. Total Cash Disbursements



Governmental Activities

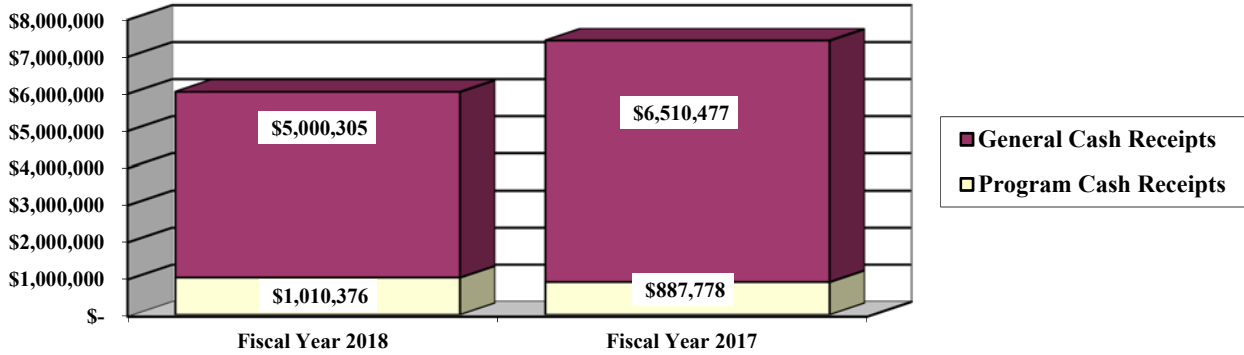
	Total Cost of Services 2018	Net Cost of Services 2018	Total Cost of Services 2017	Net Cost of Services 2017
Cash disbursements:				
Instruction:				
Regular	\$ 2,648,031	\$ 2,131,195	\$ 2,565,469	\$ 2,189,735
Special	392,331	189,330	323,580	123,796
Support services:				
Pupil	160,740	160,740	154,122	154,122
Instructional staff	172,513	168,913	261,001	240,196
Board of education	13,604	13,604	18,492	18,492
Administration	363,762	363,762	366,750	366,750
Fiscal	147,152	147,152	212,691	212,691
Operations and maintenance	513,946	513,646	510,364	509,152
Pupil transportation	76,184	69,603	193,780	171,155
Central	6,753	6,753	3,477	3,477
Operation of non instructional services	166,981	7,433	150,913	14,244
Extracurricular	267,322	146,812	299,996	169,047
Facilities acquisition and construction	-	-	5,451	5,451
Debt service:				
Principal retirement	250,383	250,383	178,469	178,469
Interest and fiscal charges	247,152	247,152	233,180	233,180
Bond issuance costs	-	-	33,175	33,175
Payment to refunded bond escrow	-	-	1,404,513	1,404,513
Total	\$ 5,426,854	\$ 4,416,478	\$ 6,915,423	\$ 6,027,645

The dependence upon general cash receipts for governmental activities is apparent; with only 18.62% of cash disbursements supported through program cash receipts during fiscal year 2018.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Governmental Activities - General and Program Cash Receipts



Financial Analysis of the Government's Funds

As noted earlier, the School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The School District's governmental funds are accounted for using the cash basis of accounting.

The School District's governmental funds reported a combined fund cash balance of \$5,365,664, which is \$583,827 higher than last year's total of \$4,781,837. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2018 and June 30, 2017, for all major and nonmajor governmental funds.

	Fund Cash Balance <u>June 30, 2018</u>	Fund Cash Balance <u>June 30, 2017</u>	Increase <u>(Decrease)</u>
General	\$ 3,772,639	\$ 3,361,434	\$ 411,205
Bond retirement	744,675	719,012	25,663
Other nonmajor governmental funds	<u>848,350</u>	<u>701,391</u>	<u>146,959</u>
Total	<u>\$ 5,365,664</u>	<u>\$ 4,781,837</u>	<u>\$ 583,827</u>

General Fund

The School District's major fund is the general fund. The general fund had cash receipts of \$5,088,404 in 2018. The cash disbursements and other financing uses of the general fund totaled \$4,677,199 in fiscal year 2018. The general fund's cash balance increased \$411,205 or 12.23% from fiscal year 2017 to fiscal year 2018.

Bond Retirement Fund

The bond retirement fund had cash receipts of \$406,701 and cash disbursements of \$381,038 in fiscal year 2018. The bond retirement fund's cash balance increased \$25,663 or 3.57% from fiscal year 2017 to fiscal year 2018.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

The table that follows assists in illustrating the cash receipts of the general fund.

	2018 Amount	2017 Amount	Percentage Change
Cash Receipts:			
Taxes	\$ 1,931,700	\$ 1,975,969	(2.24) %
Tuition	404,661	330,017	22.62 %
Earnings on investments	34,512	22,862	50.96 %
Extracurricular	10,387	14,280	(27.26) %
Other local revenues	41,777	50,852	(17.85) %
Intergovernmental	2,665,367	2,668,736	(0.13) %
Total	\$ 5,088,404	\$ 5,062,716	0.51 %

Overall, general fund cash receipts increased \$25,688 or 0.51%. Tuition receipts increased \$74,644 or 22.62% primarily due to an increase in open enrollment in the current fiscal year. Earnings on investments increased \$11,650 or 50.96% due to an increase in monies held in investments in the current fiscal year. Extracurricular receipts decreased \$3,893 or 27.26% due to a decrease in extracurricular fees.

The table that follows assists in illustrating the cash disbursements of the general fund.

	2018 Amount	2017 Amount	Percentage Change
Cash Disbursements			
Instruction	\$ 2,954,537	\$ 2,788,067	5.97
Support services	1,431,319	1,606,702	(10.92)
Extracurricular	155,112	174,419	(11.07)
Debt service	10,471	10,471	-
Total	\$ 4,551,439	\$ 4,579,659	(0.62)

The decrease in cash disbursements of \$28,220 or 0.62% was due to the decrease in support services. The School District's support service disbursements decreased due to a decrease in disbursements related to instructional staff, fiscal and administration.

Budgeting Highlights - General Fund

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

For the general fund, original and final budgetary basis receipts and other financing sources were \$5,127,470. Actual cash receipts and other financing sources of \$5,058,363 were lower than final budget estimates and other financing sources by \$69,107.

The final and original budgetary basis disbursements and other financing uses were \$5,259,623. The actual budgetary basis disbursements of \$4,698,074 were \$561,549 less than the original and final budget estimates.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Capital Assets and Debt Administration

Capital Assets

The School District does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as disbursements.

Debt Administration

At June 30, 2018, the School District had \$2,290,000 in general obligation bonds, \$107,072 in loans payable and \$29,113 in capital lease obligations payable outstanding. Of this total \$406,297 is due within one year and \$2,019,888 is due in more than one year. The following table summarizes the obligations outstanding.

	Governmental Activities <u>2018</u>	Governmental Activities <u>2017</u>
General Obligation bonds	\$ 2,290,000	\$ 2,428,656
Loans payable	107,072	210,023
Capital lease obligation	<u>29,113</u>	<u>37,889</u>
Total long-term obligations	<u>\$ 2,426,185</u>	<u>\$ 2,676,568</u>

Refer to Note 14 to the basic financial statements for further detail.

Current Financial Related Activities

General Fund receipts are expected to decrease in fiscal year 2019, while most revenue sources will remain relatively flat. General Fund appropriations are expected to increase approximately 3 percent in fiscal year 2019. Base salaries will increase by 2.50 percent in addition to staff step increases. The District has experienced some staff turnover and hired new personnel at lower salaries and fringe benefits. The District had a 7 percent increase in health insurance costs in January 2018. Appropriations for purchased services and supplies and materials will increase slightly.

Despite the projected revenue shortfall indicated (\$136,193), the District's cash reserves are anticipated to remain comfortably above standard benchmark measures through FY2020.

Contacting the School District's Financial Management

This financial report is designed to provide a general overview of the School District's finances for all those interested in our School District's financial well-being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Amy Reineke, Treasurer, 345 South Main Street, P.O. Box 476, New Knoxville, Ohio 45871.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2018

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 5,365,664
Total assets.	5,365,664
 Net position:	
Restricted for:	
Debt service.	744,675
Capital projects	276,415
Other purposes	231,400
Unrestricted.	4,113,174
Total net position.	\$ 5,365,664

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Disbursements</u>	<u>Program Cash Receipts</u>			<u>Net (Disbursement)</u>
		<u>Charges for Services</u>	<u>Operating Grants, Contributions, and Interest</u>	<u>Capital Grants and Contributions</u>	<u>Receipt and Change in Net Position</u>
					<u>Governmental Activities</u>
Governmental activities:					
Instruction:					
Regular	\$ 2,648,031	\$ 403,363	\$ 8,973	\$ 104,500	\$ (2,131,195)
Special	392,331	21,788	181,213	-	(189,330)
Support services:					
Pupil	160,740	-	-	-	(160,740)
Instructional staff	172,513	-	3,600	-	(168,913)
Board of education	13,604	-	-	-	(13,604)
Administration	363,762	-	-	-	(363,762)
Fiscal	147,152	-	-	-	(147,152)
Operations and maintenance	513,946	300	-	-	(513,646)
Pupil transportation	76,184	-	6,581	-	(69,603)
Central	6,753	-	-	-	(6,753)
Operation of non-instructional services:					
Food service operations	166,981	123,788	35,760	-	(7,433)
Extracurricular activities	267,322	110,198	10,312	-	(146,812)
Debt service:					
Principal retirement	250,383	-	-	-	(250,383)
Interest and fiscal charges	247,152	-	-	-	(247,152)
Total governmental activities	\$ 5,426,854	\$ 659,437	\$ 246,439	\$ 104,500	(4,416,478)
General receipts:					
Property taxes levied for:					
General purposes					1,181,987
Debt service					359,802
Capital Projects					13,423
Facility maintenance					21,778
Income taxes					749,713
Grants and entitlements not restricted to specific programs					2,618,103
Investment earnings					34,512
Miscellaneous					20,987
Total general receipts					5,000,305
Change in net position					583,827
Net position at beginning of year					4,781,837
Net position at end of year					\$ 5,365,664

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 3,772,639	\$ 744,675	\$ 848,350	\$ 5,365,664
Total assets	<u>3,772,639</u>	<u>744,675</u>	<u>848,350</u>	<u>5,365,664</u>
Fund balances:				
Restricted:				
Athletics and music	-	-	91,330	91,330
Capital improvements	-	-	276,415	276,415
Debt retirement	-	744,675	-	744,675
Classroom facilities maintenance	-	-	42,943	42,943
Food service operations	-	-	93,527	93,527
Technology	-	-	3,600	3,600
Committed:				
Instruction	-	-	23,514	23,514
Assigned:				
Capital improvements	-	-	319,206	319,206
Educational activities	28,291	-	-	28,291
Unpaid obligations	27,900	-	-	27,900
Unassigned (deficit)	3,716,448	-	(2,185)	3,714,263
Total fund balances	<u>\$ 3,772,639</u>	<u>\$ 744,675</u>	<u>\$ 848,350</u>	<u>\$ 5,365,664</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:				
From local sources:				
Property taxes	\$ 1,181,987	\$ 359,802	\$ 35,201	\$ 1,576,990
Income taxes	749,713	-	-	749,713
Earnings on investments	34,512	-	632	35,144
Tuition	404,661	-	-	404,661
Charges for services	-	-	123,788	123,788
Extracurricular	10,387	-	99,811	110,198
Classroom materials and fees	20,490	-	-	20,490
Rental income	300	-	-	300
Contributions and donations	9,923	-	114,830	124,753
Other local revenues	11,064	-	500	11,564
Intergovernmental - state	2,624,756	46,899	53,324	2,724,979
Intergovernmental - federal	40,611	-	87,490	128,101
Total receipts	<u>5,088,404</u>	<u>406,701</u>	<u>515,576</u>	<u>6,010,681</u>
Disbursements:				
Current:				
Instruction:				
Regular	2,640,723	-	7,308	2,648,031
Special	313,814	-	78,517	392,331
Support services:				
Pupil	160,740	-	-	160,740
Instructional staff	168,913	-	3,600	172,513
Board of education	13,604	-	-	13,604
Administration	363,762	-	-	363,762
Fiscal	141,021	5,579	552	147,152
Operations and maintenance	500,342	-	13,604	513,946
Pupil transportation	76,184	-	-	76,184
Central	6,753	-	-	6,753
Operation of non-instructional services:				
Food service operations	-	-	166,981	166,981
Extracurricular activities	155,112	-	112,210	267,322
Debt service:				
Principal retirement	8,776	138,656	102,951	250,383
Interest and fiscal charges	1,695	236,803	8,654	247,152
Total disbursements	<u>4,551,439</u>	<u>381,038</u>	<u>494,377</u>	<u>5,426,854</u>
Excess of receipts over disbursements	<u>536,965</u>	<u>25,663</u>	<u>21,199</u>	<u>583,827</u>
Other financing sources (uses):				
Transfers in	-	-	125,760	125,760
Transfers (out)	(125,760)	-	-	(125,760)
Total other financing sources (uses)	<u>(125,760)</u>	<u>-</u>	<u>125,760</u>	<u>-</u>
Net change in fund balances	411,205	25,663	146,959	583,827
Fund balances at beginning of year	3,361,434	719,012	701,391	4,781,837
Fund balances at end of year	<u>\$ 3,772,639</u>	<u>\$ 744,675</u>	<u>\$ 848,350</u>	<u>\$ 5,365,664</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts:				
From local sources:				
Property taxes	\$ 1,216,400	\$ 1,216,400	\$ 1,181,987	\$ (34,413)
Income taxes	782,500	782,500	749,713	(32,787)
Earnings on investments	23,400	23,400	34,512	11,112
Tuition	331,900	331,900	404,661	72,761
Rental income	580	580	300	(280)
Contributions and donations	11,000	11,000	5,093	(5,907)
Other local revenues	2,800	2,800	8,871	6,071
Intergovernmental - state	2,680,125	2,680,125	2,624,755	(55,370)
Intergovernmental - federal	66,500	66,500	40,610	(25,890)
Total receipts	<u>5,115,205</u>	<u>5,115,205</u>	<u>5,050,502</u>	<u>(64,703)</u>
Disbursements:				
Current:				
Instruction:				
Regular	2,795,209	2,795,209	2,657,285	137,924
Special	421,497	421,497	313,814	107,683
Support services:				
Pupil	186,250	186,250	182,950	3,300
Instructional staff	266,948	266,948	169,586	97,362
Board of education	22,774	22,774	13,604	9,170
Administration	414,232	414,232	364,881	49,351
Fiscal	192,097	192,097	141,061	51,036
Operations and maintenance	511,457	511,457	501,369	10,088
Pupil transportation	132,251	132,251	76,269	55,982
Central	4,493	4,493	7,298	(2,805)
Extracurricular activities	172,515	172,515	144,197	28,318
Total disbursements	<u>5,119,723</u>	<u>5,119,723</u>	<u>4,572,314</u>	<u>547,409</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(4,518)</u>	<u>(4,518)</u>	<u>478,188</u>	<u>482,706</u>
Other financing sources (uses):				
Refund of prior year's expenditures	12,000	12,000	7,861	(4,139)
Refund of prior year's receipts	(1,000)	(1,000)	-	1,000
Transfers (out)	(130,000)	(130,000)	(125,760)	4,240
Advances (out)	(8,900)	(8,900)	-	8,900
Sale of assets	265	265	-	(265)
Total other financing sources (uses)	<u>(127,635)</u>	<u>(127,635)</u>	<u>(117,899)</u>	<u>9,736</u>
Net change in fund balance	(132,153)	(132,153)	360,289	492,442
Fund balance at beginning of year	3,282,391	3,282,391	3,282,391	-
Prior year encumbrances appropriated	2,450	2,450	2,450	-
Fund balance at end of year	<u>\$ 3,152,688</u>	<u>\$ 3,152,688</u>	<u>\$ 3,645,130</u>	<u>\$ 492,442</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

STATEMENT OF CASH BASIS FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

	Private Purpose Trust	Agency
Assets:		
Equity in pooled cash and cash equivalents. . .	\$ 25,315	\$ 30,701
Total assets	\$ 25,315	\$ 30,701
Net position:		
Endowments.	\$ 10,000	\$ -
Held in trust for scholarships	15,315	-
Held for student activities	-	30,701
Total net position.	\$ 25,315	\$ 30,701

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

STATEMENT OF CASH BASIS CHANGE IN FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Private Purpose Trust
	Scholarship
Additions:	
Interest	\$ 187
Total additions.	187
 Deductions:	
Non-instructional services	2,700
Total deductions	2,700
Change in net position	(2,513)
Net position at beginning of year.	27,828
Net position at end of year	\$ 25,315

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

New Knoxville Local School District (the “School District”) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state and federal guidelines.

The School District serves an area of approximately twenty-seven square miles. It is located in Auglaize and Shelby Counties. It is staffed by 24 classified employees and 36 certified teaching personnel who provide services to 411 students and other community members. The School District currently operates one school building.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

The School District participates in five jointly governed organizations and three insurance pools. These organizations are the Auglaize County Local Professional Development Committee, Western Ohio Computer Organization, Auglaize County Educational Academy, Southwest Ohio Educational Purchasing Council, Southwestern Ohio Instructional Technology Association, Mercer-Auglaize Area Schools Employee Welfare Benefit Trust, and the Better Business Bureau of Central Ohio Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 17 and 18 to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

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

B. Basis of Presentation

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

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

The statement of net position presents the cash balance of the governmental activities of the School District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the School District's general receipts.

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

C. Fund Accounting

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

GOVERNMENTAL FUNDS

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. The School District's major governmental funds are as follows:

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

Bond Retirement Fund - The bond retirement fund is used to account for the retirement of bonds.

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

FIDUCIARY FUNDS

The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various student-managed activities.

D. Basis of Accounting

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

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

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the alternative tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The alternative 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 expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the first digit object level for the General Fund and the fund level for all other funds. Budgetary allocations at the first digit object level within the General Fund and the function and object level for all other funds are made by the Treasurer.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources requested by the School District prior to fiscal year-end.

The appropriations resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations 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. Cash and Investments

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

During fiscal year 2018, investments consisted of negotiable certificates of deposits, nonnegotiable certificates of deposits, federal agency securities, and U.S. Government money market accounts which are reported at cost in accordance with the cash basis of accounting.

The School District allocates interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2018 was \$34,512, which includes \$10,608 assigned from other School District funds.

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

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

G. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

H. Compensated Absences

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

I. Long-Term Obligations

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

J. Net Position

Net position is reported as restricted when there are limitations imposed on its use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources restricted for food service operations, classroom facilities and maintenance, music and athletic programs, and federal and state grants. The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

K. Fund Balance

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

Non-spendable - The non-spendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

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

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

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

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

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

L. Interfund Activity

Transfers within governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead disbursements from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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.

M. 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 2018, the School District has implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension", GASB Statement No. 81 "Irrevocable Split-Interest Agreements" GASB Statement No. 85, "Omnibus 2017" and GASB Statement No. 86, "Certain Debt Extinguishments".

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 effected the School District's postemployment benefit plan disclosures, as presented in Note 11 to the basic financial statements.

GASB Statement No. 81 improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the School District.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the School District.

B. Deficit Fund Balances

Fund balances at June 30, 2018 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Miscellaneous federal grants	\$ 2,185

The general fund is liable for any deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from reimbursements that were requested but not received as of June 30, 2018.

C. Compliance

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in 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 (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 School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (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 School District and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year end, the School District had \$100 in undeposited cash on hand which is included on the financial statements of the School District as part of “equity in pooled cash and cash equivalents.”

B. Deposits with Financial Institutions

At June 30, 2018, the carrying amount of all School District deposits (including nonnegotiable certificates of deposits) was \$3,852,447. Based on the criteria described in GASB Statement No. 40, “*Deposits and Investment Risk Disclosures*”, as of June 30, 2018, \$3,380,295 of the School District’s bank balance of \$3,907,811 was covered by the OPCS as discussed below, while \$527,516 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. The School 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 School District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the OPCS, a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a reduced rate set by the Treasurer of State.

C. Investments

As of June 30, 2018, the School District had the following investments and maturities:

Investment Type	Carrying Value	Investment Maturities				
		6 Months or Less	7 to 12 Months	13 to 18 Months	19 to 24 Months	Greater than 24 Months
Negotiable CD's	\$ 1,259,000	\$ 200,000	\$ 248,000	\$ 563,000	\$ 248,000	\$ -
U.S. Government money market	10,133	10,133	-	-	-	-
FHLMC	300,000	-	-	-	-	300,000
Total	<u>\$ 1,569,133</u>	<u>\$ 210,133</u>	<u>\$ 248,000</u>	<u>\$ 563,000</u>	<u>\$ 248,000</u>	<u>\$ 300,000</u>

The weighted average maturity of investments is 1.68 years.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the School District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The School District's investments in federal agency securities were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The U.S. Government money market was not rated. The negotiable certificates of deposit are fully covered by FDIC and are not rated. The School District's investment policy does not specifically address credit risk beyond requiring the School District to only invest in securities authorized by State statute.

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

Concentration of Credit Risk: The School District places no 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 School District at June 30, 2018:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>% of Total</u>
Negotiable CD's	\$ 1,259,000	80.23
U.S. Government money market	10,133	0.65
FLHMC	300,000	19.12
Total	<u>\$ 1,569,133</u>	<u>100.00</u>

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 cash equivalents as reported on the statement of net position as of June 30, 2018:

Cash and investments per note:

Carrying amount of deposits	\$ 3,852,447
Investments	1,569,133
Cash on hand	<u>100</u>
Total	<u>\$ 5,421,680</u>

Cash and cash equivalents per statement of net position:

Governmental activities	\$ 5,365,664
Private-purpose trust	25,315
Agency fund	<u>30,701</u>
Total	<u>\$ 5,421,680</u>

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 5 - PROPERTY TAXES

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenues received in calendar year 2018 represent the collection of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed values as of January 1, 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 revenues received in calendar year 2018 represent the collection of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 became a lien on December 31, 2016, were levied after April 1, 2017, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

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

	2017 Second Half Collections		2018 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 63,005,060	98.37	\$ 61,882,620	98.27
Public utility personal	<u>1,045,530</u>	<u>1.63</u>	<u>1,087,890</u>	<u>1.73</u>
Total	<u>\$ 64,050,590</u>	<u>100.00</u>	<u>\$ 62,970,510</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$54.65		\$54.65	

NOTE 6 - INCOME TAXES

The School District levies a voted tax of 1.25 percent for general operations on the income of residents and of estates. The 1 percent tax levy was renewed effective on January 1, 2015, for a continuing period of time and .25 percent was effective on January 1, 2007, for a twenty-three year period. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 7 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2018, consisted of the following, as reported in the fund financial statements:

Transfers to nonmajor governmental funds from:

General fund	<u>\$ 125,760</u>
--------------	-------------------

Transfers are used to (1) move cash receipts from the fund that statute or budget requires to collect them to the fund that statute or budget requires to disburse them, and (2) to use unrestricted cash receipts collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported in the statement of activities.

NOTE 8 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2018, the School District contracted with the Southwest Ohio Education Purchasing Council for the following insurance coverage.

Buildings and Contents	\$ 350,000,000
Flood	25,000,000
Earthquake	25,000,000
General Liability Aggregate	5,000,000
Automobile	1,000,000

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

For fiscal year 2018, the School District participated in the Southwest Ohio Education Purchasing Council Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

The School District participates in the Mercer-Auglaize Area Schools Employee Welfare Benefits Trust (Trust), a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The School District pays monthly premiums to the Trust for employee medical, drug, and dental insurance coverage. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 8 - RISK MANAGEMENT - (Continued)

The School District participates in the Better Business Bureau of Central Ohio Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The third party administrator, CompManagement, Sedgwick Claims Management Services, Inc., reviews each participant's claims experience and determines the rating tier for that participant. A common premium rate is applied to all participants in a given rating tier. Each participant pays its workers' compensation premium to the State based on the rate for their rating tier rather than its individual rate. CompManagement, Sedgwick Claims Management Services, Inc., provides administrative, cost control and actuarial services to the Plan.

NOTE 9 - COMMITMENTS

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

<u>Fund</u>	<u>Year - End Encumbrances</u>
General	\$ 30,264
Other governmental	<u>57,349</u>
Total	<u>\$ 87,613</u>

NOTE 10 - 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 School District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

The School District's contractually required contribution to SERS was \$77,967 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - School 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 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12% 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 KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2018, plan members were required to contribute 14 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$302,514 for fiscal year 2018.

Net Pension Liability

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.01621500%	0.01852630%	
Proportion of the net pension liability current measurement date	<u>0.01690860%</u>	<u>0.01869460%</u>	
Change in proportionate share	<u>0.00069360%</u>	<u>0.00016830%</u>	
Proportionate share of the net pension liability	\$ 1,010,251	\$ 4,440,942	\$ 5,451,193

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - SERS

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

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

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

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

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	2.50 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

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

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

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US 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	<u>10.00</u>	3.00
 Total	 <u>100.00 %</u>	

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.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
School District's proportionate share of the net pension liability	\$ 1,401,967	\$ 1,010,251	\$ 682,110

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - STRS Ohio

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

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

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

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

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's proportionate share of the net pension liability	\$ 6,365,940	\$ 4,440,942	\$ 2,819,421

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 11 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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 2018, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the School District's surcharge obligation was \$8,864.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$11,752 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

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

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Net OPEB Liability

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.01718740%	0.01869460%	
Proportion of the net OPEB liability current measurement date	<u>0.01718740%</u>	<u>0.01869460%</u>	
Change in proportionate share	<u>0.00000000%</u>	<u>0.00000000%</u>	
Proportionate share of the net OPEB liability	\$ 461,265	\$ 729,394	\$ 1,190,659

Actuarial Assumptions - SERS

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

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

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.56 percent
Prior measurement date	2.92 percent
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.63 percent
Prior measurement date	2.98 percent
Medical trend assumption:	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

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

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

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

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

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

	<u>1% Decrease (2.63%)</u>	<u>Current Discount Rate (3.63%)</u>	<u>1% Increase (4.63%)</u>
School District's proportionate share of the net OPEB liability	\$ 557,036	\$ 461,265	\$ 385,389

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
School District's proportionate share of the net OPEB liability	\$ 374,282	\$ 461,265	\$ 576,388

Actuarial Assumptions - STRS

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

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Payroll increases	3 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended discount rate of return	4.13 percent
Health care cost trends	6 to 11 percent initial, 4.5 percent ultimate

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

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

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

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

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

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

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School District's proportionate share of the net OPEB liability	\$ 979,200	\$ 729,394	\$ 531,966
	1% Decrease	Current Trend Rate	1% Increase
School District's proportionate share of the net OPEB liability	\$ 506,752	\$ 729,394	\$ 1,022,418

NOTE 12 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred thirty days for all employees. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit to a maximum of fifty-seven and a half days for all employees.

B. Health Care Benefits

The School District offers medical, drug, and dental insurance to most employees through the Mercer-Auglaize Area Schools Employee Welfare Benefits Trust. In addition, the School District offers life insurance through American United Life Insurance Company.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 13 - CAPITALIZED LEASE - LESSEE DISCLOSURE

During a prior fiscal year, the School District entered into a capitalized lease for copier equipment. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. Principal and interest payments are made from the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease as of June 30, 2018:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 10,471
2020	10,470
2021	<u>10,470</u>
Total minimum lease payments	31,411
Less: amount representing interest	<u>(2,298)</u>
Total	<u>\$ 29,113</u>

NOTE 14 - LONG-TERM OBLIGATIONS

During the fiscal year ended June 30, 2018, the following changes occurred in the District's debt obligation:

	<u>Balance 6/30/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/18</u>	<u>Due Within One Year</u>
General Obligation Bonds					
2007 OSFC Building					
Capital Appreciation Bonds	\$ 25,974	\$ -	\$ (25,974)	\$ -	\$ -
2007 High School Refunding					
Serial Bonds 4%	415,000	-	-	415,000	130,000
Term Bonds 4-4.125%	595,000	-	-	595,000	-
Capital Appreciation Bonds	37,682	-	(37,682)	-	-
2016 School Improvement Refunding					
Serial Bonds 3.42%	1,355,000	-	(75,000)	1,280,000	160,000
Loan Payable 4.47%	210,023	-	(102,951)	107,072	107,072
Capital lease agreement	<u>37,889</u>	<u>-</u>	<u>(8,776)</u>	<u>29,113</u>	<u>9,225</u>
Total General Long-Term Obligations	<u>\$ 2,676,568</u>	<u>\$ -</u>	<u>\$ (250,383)</u>	<u>\$ 2,426,185</u>	<u>\$ 406,297</u>

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

2007 OSFC Building General Obligation Bonds - On March 28, 2007, the School District issued \$1,999,999 in voted general obligation bonds to renovate, improve, expand, furnish, and equip the current school facilities. The bond issue included serial, term, and capital appreciation bonds, in the original amount of \$860,000, \$1,085,000, and \$54,999, respectively. The bonds were issued for a twenty-three year period, with final maturity during fiscal year 2030. The bonds are being retired from the Bond Retirement debt service fund, with the proceeds of a 3.3 mill voted property tax levy.

On August 31, 2016, the School District advance refunded the outstanding amount of the serial and term bonds (\$1,355,000). During fiscal year 2018 the capital appreciation bonds outstanding (\$25,974) matured. The maturity amount of the capital appreciation bonds was \$85,000.

2007 High School Refunding General Obligation Bonds - On March 28, 2007, the School District issued \$1,234,998 in voted general obligation bonds to refund \$1,235,000 of the High School Building general obligation bonds. The refunding bond issue included serial, term, and capital appreciation bonds, in the original amount of \$560,000, \$595,000, and \$79,998, respectively. The bonds were issued for an eighteen year period, with final maturity during fiscal year 2025. The bonds are being retired from the Bond Retirement debt service fund, with the proceeds of a 2.5 mill voted property tax levy.

The term bonds maturing on December 1, 2022, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, 2021 (with the balance of \$155,000 to be paid at stated maturity on December 1, 2022), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2021	\$ 145,000

The term bonds maturing on December 1, 2024, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, 2023 (with the balance of \$160,000 to be paid at stated maturity on December 1, 2024), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2023	\$ 155,000

The term bonds maturing on December 1, 2025, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District, in the amount of \$135,000.

The serial bonds maturing after December 1, 2017, are subject to redemption at the option of the School District, either in whole or in part, in such order as the School District shall determine, on any interest payment date on or after December 1, 2008, at 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

The capital appreciation bonds will mature in fiscal year 2018. The maturity amount of the bonds is \$130,000.

2016 School Improvement Refunding General Obligation Bonds - On August 31, 2016, the School District issued \$1,355,000 in general obligation school facilities construction improvement bonds to refund the remaining \$1,355,000 of the 2007 OSFC Building serial and term bonds. The refunding bonds issue included serial bonds in the amount of \$1,355,000 at an interest rate of 3.42 percent. Interest payments on the bonds are due June 1 and December 1 of each year. The refunding bonds were issued for a nine year period, with final maturity during fiscal year 2025. The bonds are being retired from the Bond Retirement debt service fund.

Loan Payable - On September 16, 2008, the School District obtained a loan, in the amount of \$900,000, to pay for the locally funded initiatives portion of the Ohio School Facilities Commission building project. The loan was issued for a ten year period, with final maturity during fiscal year 2019. The loan is being retired through the Building fund (a nonmajor governmental fund) with transfers from the General Fund. The School District's overall debt margin was \$3,940,981 with an un-voted debt margin of \$62,791 at June 30, 2018.

Principal and interest requirements to retire the general long-term obligations outstanding at June 30, 2018 were as follows:

Fiscal Year Ending June 30,	General Obligation Bonds		
	Serial & Term		
	Principal	Interest	Total
2019	\$ 290,000	\$ 78,840	\$ 368,840
2020	310,000	67,797	377,797
2021	320,000	56,198	376,198
2022	330,000	44,242	374,242
2023	345,000	31,829	376,829
2024 - 2026	695,000	25,152	720,152
Total	<u>\$ 2,290,000</u>	<u>\$ 304,058</u>	<u>\$ 2,594,058</u>

Fiscal Year Ending June 30,	Loans Payable		
	Principal	Interest	Total
	2019	<u>\$ 107,072</u>	<u>\$ 4,383</u>
Total	<u>\$ 107,072</u>	<u>\$ 4,383</u>	<u>\$ 111,455</u>

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 15 - SET ASIDES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end. This amount must be carried forward and used for the same purpose in future years. The following cash basis information identifies the change in the fund balance for capital improvements during fiscal year 2018.

	Capital Improvements
Balance June 30, 2017	\$ -
Current Year Set Aside Requirement	70,823
Current Year Offsets	(70,823)
Balance June 30, 2018	\$ -

NOTE 16 - DONOR RESTRICTED ENDOWMENTS

The School District’s private purpose trust fund includes donor restricted endowments. Endowments, in the amount of \$10,000, represent the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditures by the School District is \$15,315 and is included as held in trust for scholarships. State law permits the School District to appropriate, for purposes consistent with the endowment’s intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide a scholarship each year.

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

A. Auglaize County Local Professional Development Committee

The Auglaize County Local Professional Development Committee is a consortium operated under the direction of a Board consisting of the president of the local teachers’ union from each member, one principal from each local school district, the superintendent from each local school district, and the project coordinator. The jointly governed organization was formed to provide an appropriate process for educators to create an Individual Professional Development Plan that will facilitate professional growth opportunities and effectively meet state licensure requirements. Financial information can be obtained from the Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

B. Western Ohio Computer Organization

The School District is a participant in the Western Ohio Computer Organization (WOCO). WOCO is a council of government consisting of an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami, and Shelby counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus a representative from the fiscal agent school district. During fiscal year 2018, the School District paid \$39,092 to WOCO for various services. Financial information can be obtained from the Western Ohio Computer Organization, 129 East Court Street, Sidney, Ohio 45365.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS - (Continued)

C. Auglaize County Educational Academy

The School District is a participant in the Auglaize County Educational Academy (ACEA), which is a community school. The ACEA is an association of the school districts within Auglaize County to provide general curricular education for kindergarten through twelfth grade students for gifted, regular, and special education instruction through the use of a virtual curriculum. The governing board of the ACEA consists of the superintendents from each of the participating school districts. Financial information can be obtained from the Auglaize County Educational Academy, 1130 East Albert Street, Lima, Ohio 45804.

D. Southwest Ohio Educational Purchasing Council

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 128 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group.

During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2018, the School District paid \$21,098 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

E. Southwestern Ohio Instructional Technology Association

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-three representatives of SOITA member schools or institutions. Twenty-one representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Brown, Butler, Champaign, Clark, Clermont, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members in the State-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 18 - INSURANCE POOLS

A. Southwest Ohio Educational Purchasing Council

Southwestern Ohio Educational Purchasing Council Property, Fleet and Liability Insurance Program – The School District participates in the Southwestern Ohio Educational Purchasing Council Property, Fleet and Liability Insurance Program (PFL). The PFL’s business affairs are conducted by a six member committee consisting of various PFL representatives that are elected by the general assembly. The purpose of the program is to jointly provide or obtain casualty, property, employer liability, general liability, risk management, professional liability, group coverage and other protections for participating school districts. During fiscal year 2018, the School District paid \$21,098 for insurance coverage. Financial information can be obtained from Ken Swink, Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

B. Mercer-Auglaize Area Schools Employee Welfare Benefit Trust

The School District participates in a public entity shared risk pool consisting of eleven school districts and two educational service centers. The Mercer-Auglaize Area Schools Employee Welfare Benefit Trust (Trust) is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, drug, and dental benefits to the employees of the participants. Each participant’s superintendent is appointed to an Administrative Committee which advises the Trustee, Huntington Bank, concerning aspects of the administration of the Trust.

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from the Mercer County Educational Service Center, 441 East Market Street, Celina, Ohio 45822.

C. Better Business Bureau of Central Ohio Workers’ Compensation Group Rating Plan

The School District participates in a group rating plan for workers’ compensation as established under Section 4123.29 of the Ohio Revised Code. The Better Business Bureau of Central Ohio Workers’ Compensation Group Rating Plan (Plan) was established through the Better Business Bureau of Ohio as an insurance purchasing pool. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

NOTE 19 - CONTINGENCIES

A. Grants

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

B. Litigation

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 19 - CONTINGENCIES - (Continued)

C. Foundation Funding

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

NOTE 20 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balances 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 receipts, disbursements and changes 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 difference between the budget basis and the cash basis is outstanding year end encumbrances are treated as disbursements (budget) rather than a reservation of fund balance (cash).

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement:

Net Change in Fund Balance	
	<u>General fund</u>
Budget basis	\$ 360,289
Funds budgeted elsewhere **	23,016
Adjustment for encumbrances	<u>27,900</u>
Cash basis	<u>\$ 411,205</u>

**As part of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting", certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a cash basis. This includes the uniform school supplies fund and the public school support fund.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 21 - TAX ABATEMENTS ENTERED INTO BY OTHER GOVERNMENTS

Community Reinvestment Areas

The Village of New Knoxville provides tax abatements through Community Reinvestment Areas (CRAs).

Under the authority of Ohio Revised Code (ORC) Section 3735.67, the CRA program is an economic development tool administered by municipal and county governments that provides real property tax exemptions for property owners who renovate existing or construct new buildings. CRA's are areas of land in which property owners can receive tax incentives for investing in real property improvements. Under the CRA program, local governments petition to the Ohio Development Services Agency (ODSA) for confirmation of a geographical area in which investment in housing is desired. Once an area is confirmed by the ODSA, local governments may offer real property tax exemptions to taxpayers that invest in that area. Property owners in the CRA can receive temporary tax abatements for renovation of existing structures and new construction in these areas. Property owners apply to the local legislative authority for approval to renovate or construct in the CRA. Upon approval and certification of completion, the amount of the abatement is deducted from the individual or entity's property tax bill.

The CRA agreements entered into by the Village of New Knoxville affect the property tax receipts collected and distributed to the District. Under these agreements, the School District's property taxes were reduced by \$11,172.



Julian & Grube, Inc.

Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

New Knoxville Local School District
Auglaize County
P.O. Box 476
345 South Main Street
New Knoxville, Ohio 45871

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the New Knoxville Local School District, Auglaize County, Ohio, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the New Knoxville Local School District's basic financial statements and have issued our report thereon dated February 26, 2019, wherein we noted the New Knoxville Local School District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses. We consider findings 2018-002 and 2018-003 to be material weaknesses.

Compliance and Other Matters

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

New Knoxville Local School District's Responses to Findings

The New Knoxville Local School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not subject the New Knoxville Local School District's responses to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 New Knoxville Local School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the New Knoxville Local School District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Julian & Grube, Inc.
February 26, 2019

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2018**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2018-001

Noncompliance

Ohio Revised Code Section 117.38 provides each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Revised Code Section 117.38. Ohio Administrative Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP).

The School District prepares its financial statements in accordance with the cash-basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This presentation differs from (GAAP).

There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. Failure to prepare proper GAAP financial statements may result in the District being fined or other administrative remedies.

The School District should prepare its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Client Response:

The School District has decided not to file financial statements according to generally accepted accounting principles due to a cost benefit analysis. The School District will continue to evaluate this each year.

Finding Number	2018-002
----------------	----------

Material Weakness - Financial Statement Presentation

Accurate financial reporting is required in order to provide management and citizens with objective and timely information to enable well-informed decisions.

Certain adjustments were made to the Hinkle filed financial statements and notes to the financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2018**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2018-002 - (Continued)

The audited financial statements and School District records have been adjusted for the misstatements identified during the audit.

We recommend that the School District implement additional control procedures that enable management to timely record information/transactions in their accounting system as well as prevent or detect and correct potential misstatements in the financial statements prior to filing.

Client Response:

The School District entered into complex transactions during the fiscal year and implemented a new accounting system as well as a change in Treasurer which contributed to these adjustments being required. The School District will consider implementing additional internal controls to help alleviate these adjustments in the future.

Finding Number	2018-003
----------------	----------

Material Weakness – Bank Reconciliation

The completion of timely monthly bank reconciliations to zero unidentified differences is critical to financial data reporting for both the School District’s Board of Education and its citizens.

The School District was unable to provide timely monthly bank reconciliations to zero unidentified differences.

Without timely monthly bank reconciliations to zero unidentified differences the School District is at risk of mispostings of receipts and disbursements which could lead to inaccurate financial reporting and the potential for misstatements.

We recommend the School District seek outside consulting if necessary to perform timely monthly bank reconciliations with zero unidentified amounts, and present these completed bank statements to the Board of Education on a monthly basis for review and approval. This will help ensure the accuracy of reporting in a timely basis.

Client Response:

The School District began utilizing a new financial computer software during the year as well as a change in Treasurer which facilitated this function not to be completed timely. The School District has implemented this for the fiscal year ended 2019.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2018**

Finding Number	Year Initially Occurred	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2017-001	2008	<u>Noncompliance:</u> Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(B) required the School District to prepare its annual financial report in accordance with GAAP, however, the School District prepared its annual financial report with the cash basis of accounting in a report format similar to the requirements in GASB Statement No. 34.	No	Repeated as finding 2018-001
2017-002	2017	<u>Material Weakness - Financial Statement Presentation:</u> Accurate financial reporting is required in order to provide management and citizens with objective and timely information to enable well-informed decisions. Certain adjustments were made to the Hinkle filed financial statements and notes to the financial statements.	No	Repeated as finding 2018-002
2017-003	2017	<u>Material Weakness – Bank Reconciliation:</u> The completion of timely monthly bank reconciliations to zero unidentified differences is critical to financial data reporting for both the School District’s Board of Education and its citizens. The School District was unable to provide timely monthly bank reconciliations with zero unidentified differences.	No	Repeated as finding 2018-003

This page intentionally left blank.

OHIO AUDITOR OF STATE KEITH FABER



NEW KNOXVILLE LOCAL SCHOOL DISTRICT

AUGLAIZE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 11, 2019**