

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2019***

OHIO AUDITOR OF STATE
KEITH FABER



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Board of Education
Shelby City School District
25 High School Avenue
Shelby, OH 44875

We have reviewed the *Independent Auditor's Report* of Shelby City School District, Richland County, prepared by Julian & Grube, Inc., for the audit period July 1, 2018 through June 30, 2019. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Keith Faber
Auditor of State
Columbus, Ohio

February 3, 2020

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**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

Shelby City School District
Richland County
25 High School Avenue
Shelby, Ohio 44875

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Shelby City School District, Richland County, Ohio, as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Shelby City School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Shelby City 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 Shelby City 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 financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Shelby City School District, Richland County, Ohio, as of June 30, 2019, and the respective changes in financial position thereof and the budgetary comparison for the General fund thereof for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis*, and schedules of net pension and other post-employment benefit liabilities/asset and pension and other post-employment benefit contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary Information

Our audit was conducted to opine on the Shelby City School District's basic financial statements taken as a whole.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2019, on our consideration of the Shelby City 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 Shelby City School District's internal control over financial reporting and compliance.



Julian & Grube, Inc.
December 26, 2019

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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

Financial Highlights

Key financial highlights for 2019 are as follows:

- In total, net position of governmental activities increased \$4,606,371 which represents a 126.09% increase from the 2018 net position.
- General revenues accounted for \$21,634,440 in revenue or 82.58% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,562,200 or 17.42% of total revenues of \$26,196,640.
- The District had \$21,590,269 in expenses related to governmental activities; only \$4,562,200 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$21,634,440 were adequate to provide for these programs.
- The District's major fund is the general fund. The general fund had \$22,211,040 in revenues and \$20,214,660 in expenditures. During fiscal year 2019, the general fund's fund balance increased \$1,996,380 from \$11,526,737 to \$13,523,117.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those 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 District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund is the only major fund.

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2019?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include *all (non-fiduciary) assets, deferred outflows, liabilities, deferred inflows, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

These two statements report the District's *net position* and changes in net position. This change in net position is important because it tells the reader that, for the District as a whole, the *financial position* of the 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 District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

Reporting the District's Most Significant Fund

Fund Financial Statements

The analysis of the District's major governmental fund begins on page 11. Fund financial reports provide detailed information about the District's major fund. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant fund. The District's major fund is the general fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability and net OPEB liability/asset.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

The District as a Whole

The statement of net position provides the perspective of the District as a whole.

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

	Net Position	
	Governmental Activities 2019	Governmental Activities 2018
<u>Assets</u>		
Current and other assets	\$ 27,385,848	\$ 23,350,654
Capital assets, net	<u>21,704,625</u>	<u>21,750,546</u>
Total assets	<u>49,090,473</u>	<u>45,101,200</u>
<u>Deferred Outflows of Resources</u>		
Unamortized deferred charges on debt refunding	89,215	92,603
Pension	5,178,695	6,451,503
OPEB	<u>248,090</u>	<u>221,948</u>
Total deferred outflows of resources	<u>5,516,000</u>	<u>6,766,054</u>
<u>Liabilities</u>		
Current liabilities	2,544,679	2,225,843
Long-term liabilities:		
Due within one year	518,416	557,843
Due in more than one year:		
Net pension liability	20,535,901	22,048,853
Net OPEB liability	2,264,015	5,047,175
Other amounts	<u>18,114,696</u>	<u>18,222,955</u>
Total liabilities	<u>43,977,707</u>	<u>48,102,669</u>
<u>Deferred Inflows of Resources</u>		
Property taxes levied for next year	6,117,044	5,690,826
Pension	1,453,067	1,084,141
OPEB	<u>2,105,553</u>	<u>642,887</u>
Total deferred inflows of resources	<u>9,675,664</u>	<u>7,417,854</u>
<u>Net Position</u>		
Net investment in capital assets	5,536,632	5,525,820
Restricted	3,048,808	2,747,192
Unrestricted (deficit)	<u>(7,632,338)</u>	<u>(11,926,281)</u>
Total net position (deficit)	<u>\$ 953,102</u>	<u>\$ (3,653,269)</u>

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

The net pension liability is reported pursuant to Governmental Accounting Standards Board (GASB) Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." The net other postemployment benefits (OPEB) liability/asset is reported pursuant to GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability, and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB and the net OPEB asset.

GASB standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability or net OPEB liability. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the District's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service.
2. Minus plan assets available to pay these benefits.

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

In accordance with GASB 68 and GASB 75, the District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2019, the District's assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources by \$953,102.

Deferred outflows related to pension decreased primarily due to changes in assumptions by the State Teachers Retirement System (STRS). See Note 13 for more detail.

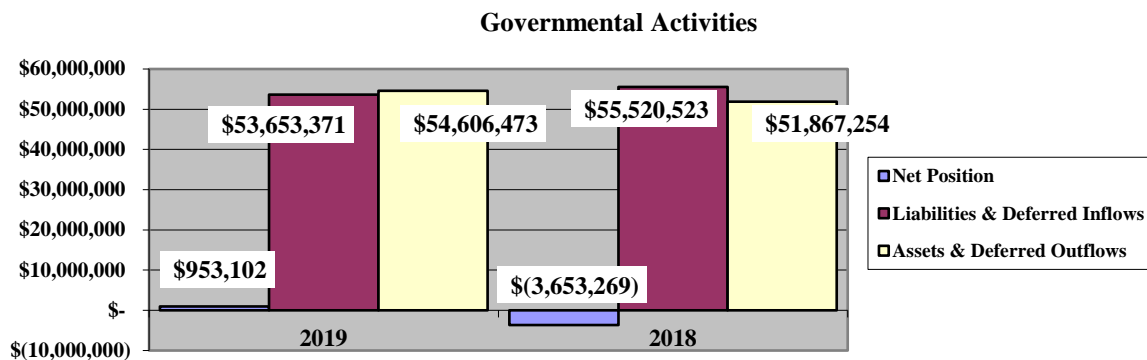
Total assets include a net OPEB asset reported by STRS. See Note 14 for more detail. STRS did not report a net OPEB asset in the prior year.

At year end, capital assets represented 44.21% of total assets. Capital assets include land, construction in progress, land improvements, buildings and building improvements, furniture, fixtures and equipment and vehicles. Net investment in capital assets at June 30, 2019, was \$5,536,632. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

Long-term liabilities decreased primarily due to a decrease in the net pension liability and net OPEB liability. These liabilities are outside of the control of the District. The District contributes its statutorily required contributions to the pension systems; however, it's the pension systems that collect, hold and distribute pensions and OPEB to District employees, not the District

A portion of the District's net position, \$3,048,808, represents resources that are subject to external restriction on how they may be used.

The graph below shows the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2019 and June 30, 2018.



**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

	Change in Net Position	
	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 1,527,860	\$ 1,512,938
Operating grants and contributions	3,034,340	3,046,999
Capital grants and contributions	-	14,809
General revenues:		
Property taxes	7,775,143	6,504,486
Income taxes	2,744,356	2,939,063
Grants and entitlements not restricted	10,648,131	10,556,311
Investment earnings	372,088	197,972
Miscellaneous	94,722	92,289
Total revenues	<u>26,196,640</u>	<u>24,864,867</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	8,697,327	5,186,906
Special	3,257,375	1,818,150
Vocational	114,306	65,762
Other	100,654	83,037
Support services:		
Pupil	1,174,429	655,132
Instructional staff	710,889	693,822
Board of Education	170,435	92,821
Administration	1,483,172	811,396
Fiscal	494,971	589,946
Operations and maintenance	1,848,222	1,626,616
Pupil transportation	689,235	587,212
Central	143,195	107,440
Operation of non-instructional services:		
Other non-instructional services	310,679	251,059
Food service operations	1,028,613	752,483
Extracurricular activities	716,041	418,931
Interest and fiscal charges	650,726	672,926
Total expenses	<u>21,590,269</u>	<u>14,413,639</u>
Changes in net position	4,606,371	10,451,228
Net position (deficit) at beginning of year	<u>(3,653,269)</u>	<u>(14,104,497)</u>
Net position (deficit) at end of year	<u>\$ 953,102</u>	<u>\$ (3,653,269)</u>

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Governmental Activities

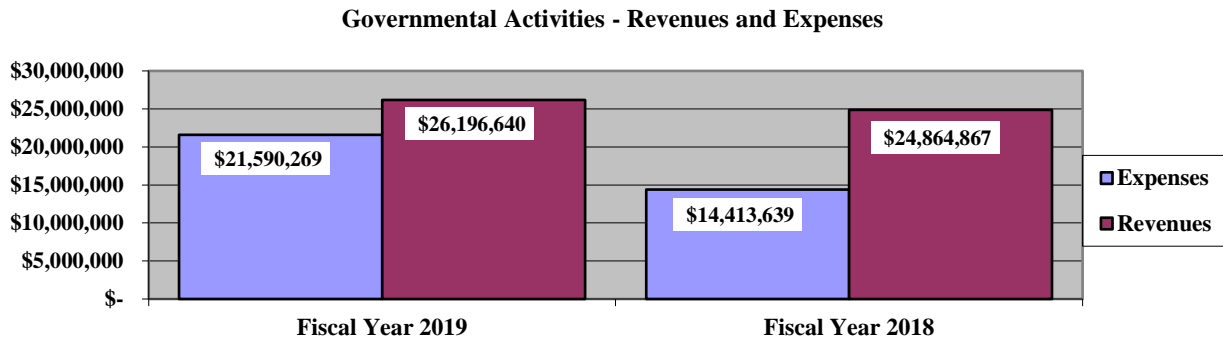
Net position of the District's governmental activities increased \$4,606,371. Total governmental expenses of \$21,590,269 were offset by program revenues of \$4,562,200 and general revenues of \$21,634,440. Program revenues supported 21.13% of the total governmental expenses.

Overall, expenses of the governmental activities increased \$7,176,630 or 49.79%. This increase is primarily the result of the STRS indefinitely suspending the Cost of Living Adjustment ("COLA") and the School Employee Retirement System (SERS) lowering the COLA from 3.00% to 2.50% in fiscal year 2018. These benefit changes caused a decrease to the net pension liability reported at June 30, 2018 and the subsequent expenses reported for fiscal year 2018 when compared to fiscal year 2017.

On an accrual basis, the District reported \$1,726,479 and (\$6,933,455) in pension expense for fiscal year 2019 and 2018, respectively. In addition, the District reported (\$2,444,152) and (\$748,266) in OPEB expense for fiscal year 2019 and 2018, respectively. The increase in both the net pension expense and the OPEB expense from fiscal year 2018 to fiscal year 2019 was \$6,964,048. This increase is primarily the result of the benefit changes by the retirement systems. Fluctuations in the pension and OPEB expense makes it difficult to compare financial information between years. Pension and OPEB expense are components of program expenses reported on the statement of activities. The District's total expenses for fiscal year 2019 are comparable to total fiscal year 2017 expenses.

The primary sources of revenue for governmental activities are derived from property taxes, income taxes and grants and entitlements. These revenue sources represent 80.80% of total governmental revenue. Real estate property is reappraised every three years.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2019 and 2018.



**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

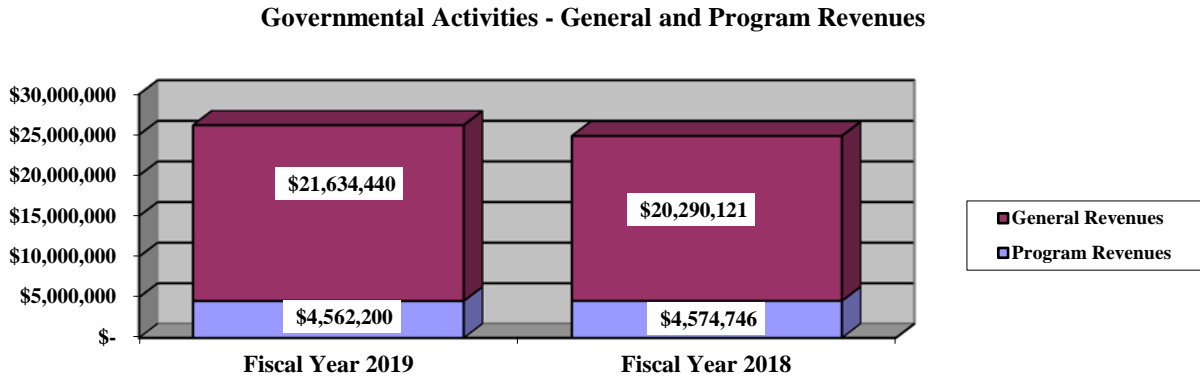
Governmental Activities				
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	<u>2019</u>	<u>2019</u>	<u>2018</u>	<u>2018</u>
Program expenses:				
Instruction:				
Regular	\$ 8,697,327	\$ 7,839,867	\$ 5,186,906	\$ 4,384,937
Special	3,257,375	1,398,541	1,818,150	(37,169)
Vocational	114,306	68,459	65,762	19,915
Other	100,654	100,654	83,037	83,037
Support services:				
Pupil	1,174,429	1,048,737	655,132	558,091
Instructional staff	710,889	618,976	693,822	607,149
Board of education	170,435	170,435	92,821	92,821
Administration	1,483,172	1,474,903	811,396	784,744
Fiscal	494,971	494,971	589,946	589,946
Operations and maintenance	1,848,222	1,826,092	1,626,616	1,609,262
Pupil transportation	689,235	610,397	587,212	511,861
Central	143,195	143,195	107,440	107,440
Operation of non-instructional services:				
Other non-instructional services	310,679	243,349	251,059	(57,514)
Food service operations	1,028,613	(204,830)	752,483	(281,865)
Extracurricular activities	716,041	543,597	418,931	193,312
Interest and fiscal charges	<u>650,726</u>	<u>650,726</u>	<u>672,926</u>	<u>672,926</u>
Total expenses	<u>\$ 21,590,269</u>	<u>\$ 17,028,069</u>	<u>\$ 14,413,639</u>	<u>\$ 9,838,893</u>

The dependence upon tax and other general revenues for governmental activities is apparent, as 77.30% of instruction activities in fiscal year 2019 are supported through taxes and other general revenues. For all governmental activities, general revenue support is 78.87% of all expenses. The District's taxpayers, and grants and entitlements from the State of Ohio, as a whole, are by far the primary support for the District's students.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

The graph below presents the District's governmental activities revenue for fiscal years 2019 and 2018.



The District's Funds

The District's governmental funds reported a combined fund balance of \$17,050,901, which is greater than last year's total of \$14,920,159. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2019 and 2018.

	Fund Balance <u>June 30, 2019</u>	Fund Balance <u>June 30, 2018</u>	<u>Change</u>	<u>Percentage Change</u>
General	\$ 13,523,117	\$ 11,526,737	\$ 1,996,380	17.32 %
Other governmental	<u>3,527,784</u>	<u>3,393,422</u>	<u>134,362</u>	3.96 %
Total	<u>\$ 17,050,901</u>	<u>\$ 14,920,159</u>	<u>\$ 2,130,742</u>	14.28 %

General Fund

The District's general fund balance increased \$1,996,380. Revenues of the general fund increased during the fiscal year primarily due to an increase in property tax revenue and intergovernmental revenue. Property tax revenue increased due to an increase in the District's assessed valuation relating to public utility personal property. This is due to the Rover pipeline. Earnings on investments revenue increased due to an increase in interest rates.

Expenditures related to support services increased primarily due to fluctuations in personal costs. All other expenditures remained consistent with the prior year.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2019</u> <u>Amount</u>	<u>2018</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 9,104,257	\$ 8,234,286	10.57 %
Earnings on investments	310,881	161,974	91.93 %
Intergovernmental	11,630,927	11,469,607	1.41 %
Other revenues	<u>1,164,975</u>	<u>1,084,158</u>	7.45 %
Total	<u>\$ 22,211,040</u>	<u>\$ 20,950,025</u>	6.02 %
<u>Expenditures</u>			
Instruction	\$ 12,274,379	\$ 11,636,823	5.48 %
Support services	7,364,844	6,946,771	6.02 %
Extracurricular activities	565,497	526,761	7.35 %
Operation of non-instructional services	9,940	8,185	21.44 %
Debt service	<u>-</u>	<u>49,144</u>	(100.00) %
Total	<u>\$ 20,214,660</u>	<u>\$ 19,167,684</u>	5.46 %

General Fund Budgeting Highlights

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

During the course of fiscal year 2019, the District amended its general fund budget several times. For the general fund, original budgeted revenues were \$20,729,900. Final budgeted revenues \$22,094,823. Actual revenues for fiscal year 2019 were \$21,964,247. This represents a \$130,576 decrease from final budgeted revenues.

General fund original appropriations of \$20,416,252 were increased to \$20,533,910 in the final appropriations. The actual budget basis expenditures for fiscal year 2019 totaled \$20,372,370, which were \$161,540 less than final budgeted appropriations.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2019, the District had \$21,704,625 invested in land, construction in progress, land improvements, buildings and building improvements, furniture, fixtures and equipment and vehicles. This entire amount is reported in governmental activities.

The following table shows fiscal year 2019 balances compared to 2018.

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2019	2018
Land	\$ 793,364	\$ 793,364
Construction in progress	126,347	-
Land improvements	1,040,894	1,103,461
Buildings and building improvements	18,026,767	18,541,035
Furniture, fixtures and equipment	867,977	993,155
Vehicles	849,276	319,531
Total	\$ 21,704,625	\$ 21,750,546

The overall decrease in capital assets of \$45,921 is due to depreciation expense of \$842,981 exceeding capital outlays of \$797,060.

See Note 9 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2019, the District had \$15,936,088 in series 2010A and 2014 general obligation bonds outstanding. Of the District's total obligations, \$285,000 is due within one year and \$15,651,088 is due in more than one year.

The following table summarizes outstanding bonds and capital lease obligations at June 30, 2019.

Outstanding Long-Term Debt at June 30, 2019

	Governmental Activities 2019	Governmental Activities 2018
	2019	2018
Series 2010A general obligation bonds	\$ 671,088	\$ 815,272
Series 2014 general obligation bonds	15,265,000	15,275,000
Total	\$ 15,936,088	\$ 16,090,272

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

At June 30, 2019, the District's overall legal debt margin was \$6,971,167 with an unvoted debt margin of \$236,387.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

Current Issues Affecting Financial Condition

In the spring of 2018, negotiations on new contracts for certified and classified staff were completed. The certified and classified staff received a three-year contract with a 3% increase to the base in fiscal years 2018 and 2019 and a 2% increase to the base in fiscal year 2020.

In August 2010, the District passed a 4 mil, 35-year bond issue and a 1 mill Continuing Permanent Improvement Levy for the local share of an Ohio School Facilities Commission (OSFC) construction project. The project provided a new high school, and allowed students from the two buildings located in the flood plain to be redistributed to existing buildings within the District. The total project cost was approximately \$28 million with approximately \$11 million provided by OSFC.

Contacting the School District's Financial Management

This financial report is designed to provide our parents, citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Barbara Donohue, Treasurer, 25 High School Avenue, Shelby, Ohio 44875 or via email at donohue.barb@shelbyk12.org.

**BASIC
FINANCIAL STATEMENTS**

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**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 17,372,029
Cash in segregated accounts	5,008
Receivables:	
Property taxes	7,300,470
Income taxes.	1,146,112
Accounts.	4,139
Accrued interest	6,128
Intergovernmental	223,633
Prepayments	73,273
Materials and supplies inventory.	81,152
Inventory held for resale.	8,858
Net OPEB asset	1,165,046
Capital assets:	
Land	919,711
Depreciable capital assets, net.	20,784,914
Capital assets, net	<u>21,704,625</u>
Total assets.	<u>49,090,473</u>
Deferred outflows of resources:	
Unamortized deferred charges on debt refunding	89,215
Pension	5,178,695
OPEB	<u>248,090</u>
Total deferred outflows of resources	<u>5,516,000</u>
Liabilities:	
Accounts payable.	82,335
Contracts payable.	126,347
Accrued wages and benefits payable	1,774,196
Intergovernmental payable	143,952
Pension and post employment benefits payable. .	315,044
Accrued interest payable	102,805
Long-term liabilities:	
Due within one year.	518,416
Due in more than one year:	
Net pension liability	20,535,901
Net OPEB liability	2,264,015
Other amounts due in more than one year .	<u>18,114,696</u>
Total liabilities	<u>43,977,707</u>
Deferred inflows of resources:	
Property taxes levied for the next fiscal year. . . .	6,117,044
Pension	1,453,067
OPEB.	<u>2,105,553</u>
Total deferred inflows of resources	<u>9,675,664</u>
Net position:	
Net investment in capital assets	5,536,632
Restricted for:	
Capital projects	1,976,299
Classroom facilities maintenance	336,578
Debt service.	530,559
Locally funded programs	26,220
State funded programs.	27,352
Federally funded programs	7,685
Student activities	44,519
Other purposes	99,596
Unrestricted (deficit)	<u>(7,632,338)</u>
Net position (deficit)	<u>\$ 953,102</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 8,697,327	\$ 786,336	\$ 71,124	\$ (7,839,867)
Special	3,257,375	62,522	1,796,312	(1,398,541)
Vocational	114,306	-	45,847	(68,459)
Other	100,654	-	-	(100,654)
Support services:				
Pupil	1,174,429	27,293	98,399	(1,048,737)
Instructional staff	710,889	23,734	68,179	(618,976)
Board of education	170,435	-	-	(170,435)
Administration	1,483,172	1,796	6,473	(1,474,903)
Fiscal	494,971	-	-	(494,971)
Operations and maintenance	1,848,222	11,629	10,501	(1,826,092)
Pupil transportation	689,235	38,915	39,923	(610,397)
Central	143,195	-	-	(143,195)
Operation of non-instructional services:				
Other non-instructional services	310,679	2,512	64,818	(243,349)
Food service operations	1,028,613	414,489	818,954	204,830
Extracurricular activities	716,041	158,634	13,810	(543,597)
Interest and fiscal charges	650,726	-	-	(650,726)
Total governmental activities	<u>\$ 21,590,269</u>	<u>\$ 1,527,860</u>	<u>\$ 3,034,340</u>	<u>(17,028,069)</u>

General revenues:

Property taxes levied for:	
General purposes	6,377,029
Special revenue	187,150
Debt service	926,487
Capital outlay	284,477
Income taxes levied for:	
General purposes	2,744,356
Grants and entitlements not restricted	
to specific programs	10,648,131
Investment earnings	372,088
Miscellaneous	94,722
Total general revenues	<u>21,634,440</u>
Change in net position	4,606,371
Net position (deficit) at beginning of year	<u>(3,653,269)</u>
Net position at end of year	<u>\$ 953,102</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash			
and cash equivalents.	\$ 13,646,897	\$ 3,725,132	\$ 17,372,029
Cash in segregated accounts	5,008	-	5,008
Receivables:			
Property taxes.	6,035,530	1,264,940	7,300,470
Income taxes	1,146,112	-	1,146,112
Accounts	2,027	2,112	4,139
Accrued interest	6,128	-	6,128
Interfund loans	89,741	-	89,741
Intergovernmental.	64,942	158,691	223,633
Prepayments.	73,273	-	73,273
Materials and supplies inventory.	77,637	3,515	81,152
Inventory held for resale.	-	8,858	8,858
Total assets	<u>\$ 21,147,295</u>	<u>\$ 5,163,248</u>	<u>\$ 26,310,543</u>
Liabilities:			
Accounts payable.	\$ 45,344	\$ 36,991	\$ 82,335
Contracts payable.	47,410	78,937	126,347
Accrued wages and benefits payable	1,601,836	172,360	1,774,196
Compensated absences payable.	61,336	7,862	69,198
Intergovernmental payable	137,164	6,788	143,952
Pension and post employment benefits payable	277,826	37,218	315,044
Interfund loans payable.	-	89,741	89,741
Total liabilities.	<u>2,170,916</u>	<u>429,897</u>	<u>2,600,813</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year.	5,057,154	1,059,890	6,117,044
Delinquent property tax revenue not available.	138,917	29,115	168,032
Income tax revenue not available.	200,229	-	200,229
Intergovernmental revenue not available.	56,962	116,562	173,524
Total deferred inflows of resources	<u>5,453,262</u>	<u>1,205,567</u>	<u>6,658,829</u>
Fund balances:			
Nonspendable:			
Materials and supplies inventory.	77,637	3,515	81,152
Prepays.	73,273	-	73,273
Restricted:			
Debt service	-	1,123,057	1,123,057
Capital improvements	-	1,969,571	1,969,571
Classroom facilities maintenance	-	333,896	333,896
Food service operations	-	145,691	145,691
Non-public schools	-	23,752	23,752
Special education	-	22	22
Extracurricular.	-	44,519	44,519
Other purposes.	-	45,329	45,329
Assigned:			
Student instruction	86,180	-	86,180
Student and staff support.	331,922	-	331,922
Extracurricular activities	197	-	197
School supplies	118,037	-	118,037
Employee benefits	766,371	-	766,371
Other purposes.	511	-	511
Unassigned (deficit).	12,068,989	(161,568)	11,907,421
Total fund balances	<u>13,523,117</u>	<u>3,527,784</u>	<u>17,050,901</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 21,147,295</u>	<u>\$ 5,163,248</u>	<u>\$ 26,310,543</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2019

Total governmental fund balances		\$	17,050,901
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			21,704,625
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	168,032	
Income taxes receivable		200,229	
Intergovernmental receivable		173,524	
Total		541,785	541,785
Unamortized premiums on bonds issued are not recognized in the funds.			(704,171)
Unamortized amounts on refundings are not recognized in the funds.			89,215
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:			
Deferred outflows of resources - pension		5,178,695	
Deferred inflows of resources - pension		(1,453,067)	
Net pension liability		(20,535,901)	
Total		(16,810,273)	(16,810,273)
The net OPEB liability/asset is not due and payable in the current period; therefore, the liability/asset and related deferred inflows/outflows are not reported in governmental funds:			
Deferred outflows of resources - OPEB		248,090	
Deferred inflows of resources - OPEB		(2,105,553)	
Net OPEB asset		1,165,046	
Net OPEB liability		(2,264,015)	
Total		(2,956,432)	(2,956,432)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(102,805)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(15,936,088)	
Compensated absences		(1,923,655)	
Total		(17,859,743)	(17,859,743)
Net position of governmental activities		\$	953,102

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Property taxes	\$ 6,371,482	\$ 1,400,773	\$ 7,772,255
Income taxes	2,732,775	-	2,732,775
Tuition	787,279	-	787,279
Transportation fees	38,915	-	38,915
Earnings on investments	310,881	65,802	376,683
Charges for services	-	414,489	414,489
Extracurricular	36,207	158,634	194,841
Classroom materials and fees	80,706	-	80,706
Rental income	11,629	-	11,629
Contributions and donations	48,756	37,426	86,182
Contract services	41,114	-	41,114
Other local revenues	120,369	18,903	139,272
Intergovernmental - intermediate	-	2,000	2,000
Intergovernmental - state	11,512,094	397,970	11,910,064
Intergovernmental - federal	118,833	1,496,169	1,615,002
Total revenues	22,211,040	3,992,166	26,203,206
Expenditures:			
Current:			
Instruction:			
Regular	9,325,796	100,385	9,426,181
Special	2,723,616	811,105	3,534,721
Vocational	126,591	-	126,591
Other	98,376	-	98,376
Support services:			
Pupil	1,291,633	-	1,291,633
Instructional staff	613,549	132,001	745,550
Board of education	168,755	-	168,755
Administration	1,618,492	-	1,618,492
Fiscal	534,224	28,115	562,339
Operations and maintenance	1,800,228	277,247	2,077,475
Pupil transportation	1,271,431	33,893	1,305,324
Central	66,532	-	66,532
Operation of non-instructional services:			
Other non-instructional services	9,940	292,600	302,540
Food service operations	-	1,053,003	1,053,003
Extracurricular activities	565,497	198,234	763,731
Facilities acquisition and construction	-	23,958	23,958
Debt service:			
Principal retirement	-	80,764	80,764
Interest and fiscal charges	-	627,263	627,263
Accretion on capital appreciation bonds	-	199,236	199,236
Total expenditures	20,214,660	3,857,804	24,072,464
Excess of revenues over expenditures	1,996,380	134,362	2,130,742
Other financing sources (uses):			
Transfers in	-	3,552	3,552
Transfers (out)	-	(3,552)	(3,552)
Total other financing sources (uses)	-	-	-
Net change in fund balances	1,996,380	134,362	2,130,742
Fund balances at beginning of year	11,526,737	3,393,422	14,920,159
Fund balances at end of year	\$ 13,523,117	\$ 3,527,784	\$ 17,050,901

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Net change in fund balances - total governmental funds	\$	2,130,742
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 797,060	
Current year depreciation	(842,981)	
Total		(45,921)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	2,888	
Income taxes	11,581	
Intergovernmental	35,927	
Total		50,396
Repayment of bond principal and accretion is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		280,000
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
Decrease in accrued interest payable	37	
Accreted interest on capital appreciation bonds	(125,816)	
Amortization of bond premiums	105,704	
Amortization of deferred charges	(3,388)	
Total		(23,463)
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		1,597,697
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(1,726,479)
Contractually required OPEB contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		67,530
Except for amounts reported as deferred inflows/outflows, changes in the net OPEB liability/asset are reported as OPEB expense in the statement of activities.		
		2,444,152
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(168,283)
Change in net position of governmental activities	\$	4,606,371

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Property taxes	\$ 5,300,000	\$ 6,236,143	\$ 6,236,144	\$ 1
Income taxes	2,900,000	2,900,000	2,776,331	(123,669)
Tuition	680,000	744,520	744,520	-
Transportation fees	40,000	40,000	39,589	(411)
Earnings on investments	300,000	300,000	291,288	(8,712)
Classroom materials and fees	12,000	20,781	20,781	-
Rental income	16,000	10,766	11,629	863
Contributions and donations	2,500	126	126	-
Contract services	-	41,114	41,114	-
Other local revenues	11,000	42,373	43,207	834
Intergovernmental - state	11,283,400	11,570,683	11,570,683	-
Intergovernmental - federal	110,000	118,315	118,833	518
Total revenues	<u>20,654,900</u>	<u>22,024,821</u>	<u>21,894,245</u>	<u>(130,576)</u>
Expenditures:				
Current:				
Instruction:				
Regular	9,290,925	9,303,629	9,280,367	23,262
Special	2,776,222	2,780,018	2,753,595	26,423
Vocational	142,744	142,939	126,761	16,178
Other	98,242	98,376	98,376	-
Support services:				
Pupil	1,186,654	1,188,277	1,178,802	9,475
Instructional staff	641,106	641,983	633,923	8,060
Board of education	182,659	182,909	182,282	627
Administration	1,615,659	1,617,868	1,607,390	10,478
Fiscal	580,664	581,458	535,240	46,218
Operations and maintenance	1,937,507	1,940,156	1,935,613	4,543
Pupil transportation	1,334,269	1,336,094	1,322,476	13,618
Central	66,861	66,952	66,718	234
Extracurricular activities	562,740	563,510	561,086	2,424
Total expenditures	<u>20,416,252</u>	<u>20,444,169</u>	<u>20,282,629</u>	<u>161,540</u>
Excess of revenues over expenditures	<u>238,648</u>	<u>1,580,652</u>	<u>1,611,616</u>	<u>30,964</u>
Other financing sources:				
Refund of prior year expenditures	65,000	68,215	68,215	-
Advances (out)	-	(89,741)	(89,741)	-
Sale of assets	10,000	1,787	1,787	-
Total other financing sources	<u>75,000</u>	<u>(19,739)</u>	<u>(19,739)</u>	<u>-</u>
Net change in fund balance	313,648	1,560,913	1,591,877	30,964
Fund balance at beginning of year	10,174,394	10,174,394	10,174,394	-
Prior year encumbrances appropriated	454,465	454,465	454,465	-
Fund balance at end of year	<u>\$ 10,942,507</u>	<u>\$ 12,189,772</u>	<u>\$ 12,220,736</u>	<u>\$ 30,964</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2019

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Current assets:		
Equity in pooled cash and cash equivalents	\$ 512,997	\$ 164,573
Investments in segregated accounts.	444,991	-
Investments in common stock.	22,818	-
	980,806	-
Total assets.	980,806	\$ 164,573
Liabilities:		
Accounts payable.	-	\$ 9,095
Pension and post employment benefits payable .	-	703
Intergovernmental payable	-	12,563
Due to students.	-	142,212
	-	142,212
Total liabilities	-	\$ 164,573
Net position:		
Held in trust for scholarships	980,806	
Total net position.	\$ 980,806	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 20,789
Gain on fair value of investments	1,841
Total additions.	22,630
Deductions:	
Scholarships awarded	3,764
Administrative fees	11,880
Total deductions.	15,644
Change in net position	6,986
Net position at beginning of year	973,820
Net position at end of year	\$ 980,806

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

Shelby City School District (the “District”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State and federal agencies. The Board of Education controls the District's three elementary schools, one middle school and one high school staffed by 102 classified employees and 131 certified full-time teaching personnel who provide services to 1,881 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District’s significant accounting policies are described below:

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, “The Financial Reporting Entity” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34”. The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization’s Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization’s resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government’s financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

The District’s reporting entity includes non-public schools. Within the District’s boundaries, the Sacred Heart School and St. Mary School are operated as private schools. Current State legislation provides funding to the parochial schools. The monies are received and disbursed on behalf of the parochial schools by the Treasurer of the District, as directed by the parochial schools. The activity is reflected in a special revenue fund of the District.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Pioneer Career and Technology Center (PCTC)

The Pioneer Career and Technology Center (a vocational school district), is a distinct political subdivision of the State of Ohio. PCTC is operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, and possesses its own budgeting and taxing authority. To obtain financial information write to the Pioneer Career and Technology Center, Linda Schumacher, Treasurer at 27 Ryan Road, Shelby, Ohio 44875-0309.

Meta Solutions

The District is a participant in Meta Solutions which is a computer consortium that was the result of a merger between Tri-Rivers Educational Computer Association (TRECA) and the Metropolitan Educational Council (MEC). Meta Solutions develops, implements and supports the technology and instructional needs of schools in a cost-effective manner. Meta Solutions provides instructional, core, technology and purchasing services for its member districts. The following items are purchased through this group discount program: custodial products, food service products, audio visual bulbs and certain paper products. The Board of Directors consists of the Superintendents from eight of the member districts. Financial information can be obtained from Ashley Widby, who serves as Interim Chief Financial Officer, 100 Executive Drive, Marion, Ohio 43302.

Heartland Council of Governments/North Central Ohio Computer Cooperative (COG)

The Heartland Council of Governments/North Central Ohio Computer Cooperative (the "COG") is a jointly governed organization among 16 school districts, 1 educational service center and a career center. The COG is an association of public schools within the boundaries of Ashland, Crawford, Huron, Marion, Morrow, Richland, Seneca and Wyandot counties. The COG 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. Each member school district supports the COG based on a per pupil charge dependent upon the software package utilized. The COG is governed by a Cooperative Assembly consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Cooperative Assembly. Financial information can be obtained from the Treasurer for the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

INSURANCE PURCHASING POOLS

Ohio School Boards Association Workers' Compensation Group Retrospective Rating Program

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

The firm of Comp Management provides administrative, cost control and actuarial services to the GRRP.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

Wyandot-Crawford Health Benefit Plan

The Wyandot-Crawford Health Benefit Plan (the “Plan”) is a public entity shared risk pool consisting of seven school districts. The District joined the Plan February 1, 2010. The Plan is organized as a Voluntary Employee Benefit Association under Section 501(c) (9) of the Internal Revenue Code and provides medical, dental, and life insurance benefits to employees of the participating school districts. Each participating school district’s superintendent is appointed to the Board of Directors which advises the Trustee, Huntington Trust Company, N.A., concerning aspects of the administration of the Plan.

Each school district decides which benefit program offered by the Plan will be extended to its employees. Participation in the Plan is by written application subject to acceptance by the Board of Directors and payment of the monthly premiums. Financial information can be obtained from Kathleen Chapin, Huntington National Bank, PO Box 1558, Columbus, OH 43216.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

PROPRIETARY FUNDS

The proprietary fund is used to account for the District’s ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows and all liabilities and deferred inflows associated with the operation of the District are included on the statement of net position.

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

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows and current liabilities and deferred inflows generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property and income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6).

Revenue from income taxes is recognized in the fiscal year in which the underlying exchange transaction occurred (Note 8).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, income taxes, interest, tuition, grants, student fees and rentals.

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, see Notes 13 and 14 for deferred outflows of resources related to the District's net pension liability and net OPEB liability/asset, respectively. In addition, deferred outflows of resources include a deferred charge on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2019, but which were levied to finance fiscal year 2020 operations. This amount has been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District, unavailable revenue includes delinquent property taxes, income taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the District, see Notes 13 and 14 for deferred inflows of resources related to the District's net pension liability and net OPEB liability/asset, respectively. This deferred inflow of resources is only reported on the government-wide statement of net position.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established at the fund level for all funds. Although the legal level of budgetary control was established at the fund level of expenditures for the general fund, the District has elected to present its budgetary statement comparison at the fund and function level of expenditures. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with Richland County Budget Commission for rate determination.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts from the certificate of estimated resources that was in effect at the time the original and final appropriations were passed by the Board of Education.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, at the fund level, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at the legal level of control. Any revisions that alter the legal level of budgetary control must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the fiscal year, all supplemental appropriations were legally enacted.

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

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

F. Cash and Cash Equivalents

To improve cash management, cash received by the District is pooled. Monies for all funds, other than a portion of the private purpose trust fund which is invested in common stock and invested in other securities which are presented as “invested in segregated accounts” on the Statement of Fiduciary Net Position and a portion of the general fund which is held in a segregated account which is presented as “cash in segregated accounts” on the balance sheet, are maintained in this pool. Individual fund integrity is maintained through the District’s records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During fiscal year 2019, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio) and donated common stock. The common stock is reported at fair value which is based on quoted market price.

During fiscal year 2019, the District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, “Certain External Investment Pools and Pool Participants.” The District measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

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

Under existing Ohio statutes, all investment earnings are assigned to the general fund except for those specifically related to the building fund (a nonmajor governmental fund) and the classroom facilities fund (a nonmajor governmental fund) individually authorized by Board resolution. Interest revenue credited to the general fund during fiscal year 2019 amounted to \$310,881, which includes \$30,398 assigned from other District funds.

While common stock is not an allowable investment according to Ohio Statute, the District has been endowed with gifts of stock to its private-purpose trust fund. No public funds were used to acquire the stock. The amount of common stock available for expenditure is reported in net position available in trust for scholarships on the statement of fiduciary net position.

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

G. Inventory

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method which means that the costs of inventory items are recorded as expenditures in the governmental funds when consumed.

On the fund financial statements, reported material and supplies inventory is equally offset by a non-spendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food, purchased food and non-food supplies.

H. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their acquisition value. The District's capitalization threshold is \$5,000 for general capital assets. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	5 - 40 years
Buildings and building improvements	5 - 40 years
Furniture, fixtures and equipment	5 - 20 years
Vehicles	8 - 15 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans between governmental funds are classified as "interfund loans receivable/payable". These amounts are eliminated in the governmental activities column on the statement of net position.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2019, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least ten years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2019 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds are recognized on the fund financial statements when due. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

L. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

M. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the fiscal year in which services are consumed.

On the fund financial statements, reported prepayments are equally offset by nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

N. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents amounts restricted for food service and special trust.

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

O. Unamortized Bond Premiums and Discounts/Accounting Gain or Loss

Bond premiums are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of the bonds.

For advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter and is presented as a deferred outflow/inflow of resources.

On the governmental fund financial statements bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 10.

P. Estimates

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

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

Q. Interfund Activity

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

R. Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, net OPEB asset, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, 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.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. The District did not have any extraordinary or special items during fiscal year 2019.

T. Fair Value

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

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

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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

B. Deficit Fund Balances

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

<u>Nonmajor funds</u>	<u>Deficit</u>
IDEA, Part B	\$ 91,347
Title I, disadvantaged children	68,175
Improving teacher quality	460
Miscellaneous Federal Grants	1,586

The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, and with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).
8. Certain bankers' acceptances for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed forty percent of the interim monies available for investment at any one time if training requirements have been met.

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

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. Except as noted above, an investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash in Segregated Accounts

The District has \$5,008 held in an account for employee medical savings. These funds are not included below and are reported on the financial statement as "cash in segregated accounts"

B. Investments in Segregated Accounts

At fiscal year-end, \$444,991 was on deposit with an escrow agent for monies held in relation to the W.H. & Ladye F. Moody Scholarship fund. This amount is not included in the total amount of deposits reported below and is reported on the financial statements as "investments in segregated accounts".

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Deposits with Financial Institutions

At June 30, 2019, the carrying amount of all District deposits was \$3,521,500 and the bank balance of all District deposits was \$3,575,062. Of the bank balance, \$2,874,069 was covered by federal depository insurance and \$700,993 was covered by the Ohio Pooled Collateral System (OPCS).

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

D. Investments

As of June 30, 2019, the District had the following investments and maturities:

Measurement/ <u>Investment type</u>	Measurement <u>Value</u>	Investment Maturities	
		6 months or less	
Amortized Cost:			
STAR Ohio	\$ 14,528,099	\$	14,528,099
Fair Value:			
Common Stock	22,818		22,818
Total	\$ 14,550,917	\$	14,550,917

The District's investments in common stock is valued using quoted market prices (Level 1 inputs).

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 District's investment policy limits investment portfolio maturities to five years or less, unless matched to a specific obligation or debt of the District.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating, while the donated common stock was rated BBB-. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District has no investment policy that would further limit its investment choices.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The 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 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 District at June 30, 2019:

<u>Measurement/ Investment type</u>	<u>Measurement Value</u>	<u>% of Total</u>
Amortized Cost:		
STAR Ohio	\$ 14,528,099	99.84
Fair Value:		
Common Stock	<u>22,818</u>	<u>0.16</u>
Total	<u>\$ 14,550,917</u>	<u>100.00</u>

E. 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, 2019:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 3,521,500
Investments	14,550,917
Investments in segregated accounts	444,991
Cash in segregated accounts	<u>5,008</u>
Total	<u>\$ 18,522,416</u>
<u>Cash and cash equivalents per financial statements</u>	
Governmental activities	\$ 17,377,037
Private-purpose trust fund	980,806
Agency funds	<u>164,573</u>
Total	<u>\$ 18,522,416</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund Loans

Interfund transactions for the fiscal year ended June 30, 2019, consisted of the following interfund loans receivable/payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	<u>\$ 89,741</u>

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

The primary purpose of the interfund balances is to cover cost in the specific nonmajor governmental funds where revenues were not received by June 30. These interfund balances are expected to be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

B. Transfers

Interfund transfers for the fiscal year ended June 30, 2019, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
<u>Transfers from nonmajor governmental funds to:</u>	
Nonmajor governmental funds	<u>\$ 3,552</u>

Transfers are used to move revenues from the fund that statute or budget requires them to be collected in to the fund that statute or budget requires them to be expended from and to use unrestricted revenues to finance various programs accounted for in other funds in accordance with budgetary authorizations. The \$3,552 transfer from the Title IV-A fund (a nonmajor governmental fund) to the Title I fund (a nonmajor governmental fund) was made in accordance with transferability guidelines approved by the Ohio Department of Education.

Transfers between governmental funds are eliminated on the government-wide statements.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

NOTE 6 - PROPERTY TAXES

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

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES - (Continued)

The District receives property taxes from Richland County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2019, are available to finance fiscal year 2019 operations. The amount available as an advance at June 30, 2019 was \$839,459 in the general fund, \$119,073 in the debt service fund (a nonmajor governmental fund), \$16,208 in the classroom facilities maintenance fund (a nonmajor governmental fund) and \$40,654 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2018 was \$704,121 in the general fund, \$112,925 in the debt service fund (a nonmajor governmental fund), \$14,441 in the classroom facilities maintenance fund (a nonmajor governmental fund) and \$40,387 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2019 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows.

On the accrual basis of accounting, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis of accounting the revenue has been reported as a deferred inflow.

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

	2018 Second Half Collections		2019 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 202,970,350	95.25	\$ 201,276,170	85.15
Public utility personal	<u>10,113,270</u>	<u>4.75</u>	<u>35,110,500</u>	<u>14.85</u>
Total	<u>\$ 213,083,620</u>	<u>100.00</u>	<u>\$ 236,386,670</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation		\$55.60		\$55.20

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 7 - RECEIVABLES

Receivables at June 30, 2019 consisted of property taxes, income taxes, accrued interest, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported in the statement of net position follows:

Governmental activities:

Property taxes	\$ 7,300,470
Income taxes	1,146,112
Accounts	4,139
Accrued interest	6,128
Intergovernmental	<u>223,633</u>
Total	<u>\$ 8,680,482</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

NOTE 8 - INCOME TAX

The District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2006 and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund.

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**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 9 - CAPITAL ASSETS

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

	<u>Balance</u> <u>06/30/18</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/19</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 793,364	\$ -	\$ -	\$ 793,364
Construction in progress	-	126,347	-	126,347
Total capital assets, not being depreciated	<u>793,364</u>	<u>126,347</u>	<u>-</u>	<u>919,711</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,822,086	29,320	-	2,851,406
Buildings and building improvements	27,195,122	66,534	-	27,261,656
Furniture, fixtures and equipment	4,259,143	8,964	-	4,268,107
Vehicles	1,213,810	565,895	(214,127)	1,565,578
Total capital assets, being depreciated	<u>35,490,161</u>	<u>670,713</u>	<u>(214,127)</u>	<u>35,946,747</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,718,625)	(91,887)	-	(1,810,512)
Buildings and building improvements	(8,654,087)	(580,802)	-	(9,234,889)
Furniture, fixtures and equipment	(3,265,988)	(134,142)	-	(3,400,130)
Vehicles	(894,279)	(36,150)	214,127	(716,302)
Total accumulated depreciation	<u>(14,532,979)</u>	<u>(842,981)</u>	<u>214,127</u>	<u>(15,161,833)</u>
Governmental activities capital assets, net	<u>\$ 21,750,546</u>	<u>\$ (45,921)</u>	<u>\$ -</u>	<u>\$ 21,704,625</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 312,162
Special	81,858
Vocational	4,986
Other	2,278
<u>Support services:</u>	
Pupil	29,912
Instructional staff	44,671
Board of education	3,908
Administration	37,481
Fiscal	13,023
Operation and maintenance	96,126
Pupil transportation	29,046
Central	76,663
Operation of noninstructional services	8,139
Extracurricular	45,257
Food service operations	57,471
Total depreciation expense	<u>\$ 842,981</u>

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 10 - LONG-TERM OBLIGATIONS

During fiscal year 2019, the following activity occurred in governmental activities long-term obligations.

Governmental activities:	<u>Balance Outstanding 06/30/18</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding 06/30/19</u>	<u>Amounts Due in One Year</u>
General obligation bonds:					
Series 2010A School Improvement Bonds					
Capital appreciation bonds	\$ 232,454	\$ -	\$ (70,764)	\$ 161,690	\$ 60,907
Accreted interest	582,818	125,816	(199,236)	509,398	214,093
Series 2014 Refunding Bonds					
Current interest term bonds	<u>15,275,000</u>	<u>-</u>	<u>(10,000)</u>	<u>15,265,000</u>	<u>10,000</u>
Total general obligation bonds	<u>16,090,272</u>	<u>125,816</u>	<u>(280,000)</u>	<u>15,936,088</u>	<u>285,000</u>
Compensated absences	1,880,651	411,850	(299,648)	1,992,853	233,416
Net pension liability	22,048,853	-	(1,512,952)	20,535,901	-
Net OPEB liability	<u>5,047,175</u>	<u>37,396</u>	<u>(2,820,556)</u>	<u>2,264,015</u>	<u>-</u>
Total long-term obligations	<u>\$ 45,066,951</u>	<u>\$ 575,062</u>	<u>\$ (4,913,156)</u>	40,728,857	<u>\$ 518,416</u>
				Add: Unamortized premium on bonds	<u>704,171</u>
				Total on statement of net position	<u>\$ 41,433,028</u>

Series 2010A School Facilities Improvement Bonds - On November 18, 2010, the District issued \$1,499,992 in general obligation bonds, for the purpose of improving school facilities. Principal and interest payments are made from the bond retirement fund (a nonmajor governmental fund). The bonds were sold at a premium of \$719,421.

The issue is comprised of both current interest serial bonds, par value \$1,190,000, and capital appreciation bonds par value \$309,992. The interest rates on the current interest serial bonds range from 2.00% - 2.50%. The remaining capital appreciation bonds mature on November 1, 2019 (stated interest rate 17.567%), November 1, 2020 (stated interest rate 17.567%) and November 1, 2021 (stated interest rate 17.567%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the remaining capital appreciation bonds is \$860,000. Total accreted interest of \$509,398 for series 2010 A has been included on the statement of net position at June 30, 2019.

The current interest serial bonds and the capital appreciation bonds are not subject to redemption prior to maturity. Interest payments on the current interest serial bonds are due on May 1 and November 1 of each year. The final maturity stated in the issue is November 1, 2021 for the capital appreciation bonds. During fiscal year 2017, the current interest bonds were paid in full.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the District's future annual debt service requirements to maturity for the Series 2010A Capital Appreciation Bonds:

<u>Fiscal Year</u>	Capital Appreciation - Series 2010 A		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 60,907	\$ 214,093	\$ 275,000
2021	53,338	231,662	285,000
2022	47,445	252,555	300,000
Total	\$ 161,690	\$ 698,310	\$ 860,000

Series 2014 Refunding Bonds - On October 22, 2014, the District issued General Obligation Refunding Bonds (Series 2014 refunding bonds). These bonds refunded the \$15,500,000 Series 2010B bonds. These bonds are general obligations of the District, for which its full faith and credit is pledged for repayment. On the fund financial statements, payments of principal and interest relating to these bonds are recorded as expenditures in the debt service fund (a nonmajor governmental fund). On the government-wide financial statements, principal payments reduce the liability reported on the statement of net position.

This issue is comprised of current interest bonds, par value \$15,315,000. The interest rates on the bonds range from 1.00% - 5.00%. Payments on the current interest bonds are due on May 1 and November 1 of each year. The final maturity stated in the issue is November 1, 2045.

The reacquisition price exceeded the net carrying amount of the old debt by \$105,025. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

The following is a summary of the District's future annual debt service requirements, including mandatory sinking fund deposits, to maturity for the Series 2014 bonds:

<u>Fiscal Year</u>	Current Interest - Series 2014		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 10,000	\$ 627,113	\$ 637,113
2021	5,000	626,988	631,988
2022	5,000	626,881	631,881
2023	315,000	620,525	935,525
2024	335,000	607,525	942,525
2025 - 2029	2,075,000	2,806,425	4,881,425
2030 - 2034	2,810,000	2,332,013	5,142,013
2035 - 2039	3,460,000	1,694,275	5,154,275
2040 - 2044	4,285,000	835,100	5,120,100
2045 - 2046	1,965,000	79,299	2,044,299
Total	\$ 15,265,000	\$ 10,856,144	\$ 26,121,144

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Compensated Absences - Compensated absences will be paid from the fund from which the employees' salaries are paid which, for the District, is primarily the general fund.

Net Pension Liability - See Note 13 for detail on the District's net pension liability.

Net OPEB Liability - See Note 14 for detail on the District's net OPEB liability.

Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2019, are a voted debt margin of \$6,971,167 (including available funds of \$1,123,057) and an unvoted debt margin of \$236,387.

NOTE 11 - COMPENSATED ABSENCES

A. Compensated Absences

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

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Classified employees receive one-third of any accrued but unused sick leave to the maximum of 260 days. Certified employees are allowed one-fourth of accrued but unused sick leave, up to a severance pay maximum of sixty-six days.

B. Retirement Incentive

The District offers certified employees a retirement incentive equal to two days severance pay for each year of service to the District, not to exceed forty-five days. To qualify for this incentive employees must retire in the first year of eligibility under STRS by no later than the April Board of Education Meeting. At fiscal year-end, there was no retirement incentive liability.

Previously offered retirement incentives were eliminated during negotiations for the 2018 - 2020 contract.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 12 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2019, the District's insurance coverage was as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Liability Limit</u>
Building and Contents-replacement cost	\$ 2,500	\$ 76,534,359
Electronic Data Processing Equipment	500	Full
Automobile Liability	1,000/1,000	1,000,000
Uninsured Motorist	-	1,000,000
School Leader's Errors and Omissions Liability	2,500	1,000,000
General Liability	-	2,000,000
Employer's Liability	-	3,000,000

Flood insurance is also maintained at maximum available levels through Hartford Insurance Company. Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no reductions in coverage from the prior year.

B. Worker's Compensation

For fiscal year 2019, the District participated in the Ohio School Boards Association Workers' Compensation Group Retrospective Rating Program (GRRP), an insurance purchasing pool (Note 2A). The GRRP is a voluntary performance-based program sponsored by OSBA. The program is designed to reward participants that are able to keep their claim costs below a predetermined amount. Employers continue to pay their individual premium; however, they have the opportunity to receive retrospective premium adjustments at the end of each of the three evaluation periods. The firm of Comp Management provides administrative, cost control and actuarial services to the GRRP.

C. Employee Health Benefits

In February 2010, the District joined the Wyandot Crawford Health Benefit Plan (WCHBP), a public entity risk pool currently operating as a common risk management and insurance program. The WCHBP includes six school districts. The District pays an annual premium to the pool for its general insurance coverage. The risk of loss transfers entirely from the District to WCHBP. The Agreement for formation of the WCHBP provides that the WCHBP will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$150,000 for each insured event.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

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

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

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

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *pension and postemployment benefits payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

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

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

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

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

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

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

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

The District's contractually required contribution to SERS was \$400,519 for fiscal year 2019. Of this amount, \$57,741 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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

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

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

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

The District's contractually required contribution to STRS was \$1,197,178 for fiscal year 2019. Of this amount, \$203,171 is reported as pension and postemployment benefits payable.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

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

Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.08160640%	0.07229171%	
Proportion of the net pension liability current measurement date	<u>0.08021670%</u>	<u>0.07250282%</u>	
Change in proportionate share	<u>-0.00138970%</u>	<u>0.00021111%</u>	
Proportionate share of the net pension liability	\$ 4,594,159	\$ 15,941,742	\$ 20,535,901
Pension expense	\$ 273,835	\$ 1,452,644	\$ 1,726,479

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 251,963	\$ 367,986	\$ 619,949
Changes of assumptions	103,745	2,825,177	2,928,922
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	-	32,127	32,127
Contributions subsequent to the measurement date	<u>400,519</u>	<u>1,197,178</u>	<u>1,597,697</u>
Total deferred outflows of resources	<u>\$ 756,227</u>	<u>\$ 4,422,468</u>	<u>\$ 5,178,695</u>

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

	SERS	STRS	Total
Deferred inflows of resources			
Differences between expected and actual experience	\$ -	\$ 104,109	\$ 104,109
Net difference between projected and actual earnings on pension plan investments	127,291	966,693	1,093,984
Difference between employer contributions and proportionate share of contributions/change in proportionate share	66,564	188,410	254,974
Total deferred inflows of resources	\$ 193,855	\$ 1,259,212	\$ 1,453,067

\$1,597,697 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020.

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

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2020	\$ 285,222	\$ 1,288,514	\$ 1,573,736
2021	66,436	832,397	898,833
2022	(150,767)	45,983	(104,784)
2023	(39,038)	(200,816)	(239,854)
Total	\$ 161,853	\$ 1,966,078	\$ 2,127,931

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.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

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

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 6,471,219	\$ 4,594,159	\$ 3,020,369

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - STRS

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

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

For the July 1, 2018, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

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

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

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

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

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net pension liability	\$ 23,280,816	\$ 15,941,742	\$ 9,730,212

NOTE 14 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability/Asset

The net OPEB liability/asset reported on the statement of net position represents a liability/asset to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

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

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* or *net OPEB asset* on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *pension and postemployment benefits payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5% of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the District's surcharge obligation was \$52,696.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

The surcharge added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$67,530 for fiscal year 2019. Of this amount, \$54,835 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

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

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

OPEB Liabilities/Assets, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

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

	SERS	STRS	Total
Proportion of the net OPEB liability prior measurement date	0.08296710%	0.07229171%	
Proportion of the net OPEB liability current measurement date	<u>0.08160760%</u>	<u>0.07250282%</u>	
Change in proportionate share	<u>-0.00135950%</u>	<u>0.00021111%</u>	
Proportionate share of the net OPEB liability	\$ 2,264,015	\$ -	\$ 2,264,015
Proportionate share of the net OPEB asset	\$ -	\$ (1,165,046)	\$ (1,165,046)
OPEB expense	\$ 88,189	\$ (2,532,341)	\$ (2,444,152)

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 36,957	\$ 136,079	\$ 173,036
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	-	7,524	7,524
District contributions subsequent to the measurement date	<u>67,530</u>	<u>-</u>	<u>67,530</u>
Total deferred outflows of resources	<u>\$ 104,487</u>	<u>\$ 143,603</u>	<u>\$ 248,090</u>
	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ -	\$ 67,880	\$ 67,880
Net difference between projected and actual earnings on pension plan investments	3,397	133,096	136,493
Changes of assumptions	203,404	1,587,468	1,790,872
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	<u>77,119</u>	<u>33,189</u>	<u>110,308</u>
Total deferred inflows of resources	<u>\$ 283,920</u>	<u>\$ 1,821,633</u>	<u>\$ 2,105,553</u>

\$67,530 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability/asset in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2020	\$ (106,356)	\$ (301,220)	\$ (407,576)
2021	(84,966)	(301,220)	(386,186)
2022	(17,241)	(301,220)	(318,461)
2023	(15,795)	(270,992)	(286,787)
2024	(16,029)	(260,389)	(276,418)
Thereafter	<u>(6,576)</u>	<u>(242,989)</u>	<u>(249,565)</u>
Total	<u>\$ (246,963)</u>	<u>\$ (1,678,030)</u>	<u>\$ (1,924,993)</u>

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

Actuarial Assumptions - SERS

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

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

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

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

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
Investment rate of return	7.50% net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.62%
Prior measurement date	3.56%
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.70%
Prior measurement date	3.63%
Medical trend assumption:	
Medicare	5.375 to 4.75%
Pre-Medicare	7.25 to 4.75%

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

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

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

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70%. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2026. 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, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62%, as of June 30, 2018 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. A municipal bond rate of 3.56% was used as of June 30, 2017. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
District's proportionate share of the net OPEB liability	\$ 2,747,205	\$ 2,264,015	\$ 1,881,420

	1% Decrease (6.25 % decreasing to 3.75 %)	Current Trend Rate (7.25 % decreasing to 4.75 %)	1% Increase (8.25 % decreasing to 5.75 %)
District's proportionate share of the net OPEB liability	\$ 1,826,645	\$ 2,264,015	\$ 2,843,172

Actuarial Assumptions - STRS

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

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

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

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

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

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

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

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

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net OPEB asset	\$ 998,554	\$ 1,165,046	\$ 1,304,975

	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB asset	\$ 1,297,076	\$ 1,165,046	\$ 1,030,960

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 1,591,877
Net adjustment for revenue accruals	32,468
Net adjustment for expenditure accruals	(91,115)
Net adjustment for other sources/uses	19,739
Funds budgeted elsewhere	63,058
Adjustment for encumbrances	380,353
GAAP basis	<u>\$ 1,996,380</u>

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

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is not party to legal proceedings.

NOTE 17 - SET-ASIDES

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

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 17 - SET-ASIDES - (Continued)

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2018	\$ -
Current year set-aside requirement	340,772
Current year offsets	(341,112)
Prior year offset from bond proceeds	<u>-</u>
Total	<u>\$ (340)</u>
Balance carried forward to fiscal year 2020	<u>\$ -</u>
Set-aside balance June 30, 2019	<u>\$ -</u>

During fiscal year 2012, the District issued \$16,999,992 in capital related school improvement bonds. These proceeds may be used to reduce the capital improvements set-aside amount to below zero for future years. The amount presented for prior year offset from bond proceeds is limited to an amount needed to reduce the capital improvements set-aside balance to \$0. The District is responsible for tracking the amount of bond proceeds that may be used as an offset in future periods, which was \$16,998,255 at June 30, 2019.

NOTE 18 - OTHER COMMITMENTS

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

	<u>Year - End Encumbrances</u>
<u>Fund</u>	
General	\$ 271,467
Other governmental	<u>187,737</u>
Total	<u>\$ 459,204</u>

NOTE 19 - TAX ABATEMENTS ENTERED INTO BY OTHER GOVERNMENTS

The City of Shelby entered into property tax abatement agreements with local businesses under Enterprise Zone tax abatement agreements. Enterprise zones are designated areas of land in which businesses can receive tax incentives in the form of tax exemptions on eligible new investment. The Enterprise Zone Program provides tax exemptions for a portion of the value of new real property when the investment is made in conjunction with a project that includes job creation or job retention. These tax abatements reduce assessed value by a percentage agreed upon by all parties that authorize these types of agreements. The agreements affect the property tax receipts collected and distributed to the District. Under the agreements, the District property taxes were reduced by \$409,277 during fiscal year 2019.

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

NOTE 19 - TAX ABATEMENTS ENTERED INTO BY OTHER GOVERNMENTS - (Continued)

The City of Shelby entered into property tax abatement agreements with property owners under the Ohio Community Reinvestment Area (“CRA”) program with the taxing districts of the District. The CRA program is a directive incentive tax exemption program benefiting property owners who renovate or construct new buildings. Under this program, the other governments designated areas to encourage revitalization of the existing housing stock and the development of new structures. Within the taxing districts of the District, the City has entered into such agreements. Under these agreements, the District’s property taxes were reduced by \$82,366.

NOTE 20 - SUBSEQUENT EVENT

On October 1, 2019 the District issued \$16,575,000 in certificates of participation. The District will use the proceeds to pay costs of constructing, furnishing and equipping school facilities, including the construction of a new elementary/middle school and the demolition, abatement and repair of certain structures on the Auburn, Central and Dowds elementary schools and Shelby Middle School sites. The certificates of participation bear interest rates ranging from 2.125% to 5.00% and have a final maturity on November 1, 2049.

REQUIRED SUPPLEMENTARY INFORMATION

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST SIX FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
District's proportion of the net pension liability	0.08021670%	0.08160640%	0.08192870%	0.08423310%
District's proportionate share of the net pension liability	\$ 4,594,159	\$ 4,875,802	\$ 5,996,425	\$ 4,806,422
District's covered payroll	\$ 2,805,867	\$ 2,686,893	\$ 2,603,221	\$ 2,535,857
District's proportionate share of the net pension liability as a percentage of its covered payroll	163.73%	181.47%	230.35%	189.54%
Plan fiduciary net position as a percentage of the total pension liability	71.36%	69.50%	62.98%	69.16%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>
0.08594200%	0.08594200%
\$ 4,349,476	\$ 5,110,695
\$ 2,497,316	\$ 2,624,725
174.17%	194.71%
71.70%	65.52%

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST SIX FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
District's proportion of the net pension liability	0.07250282%	0.07229171%	0.07316052%	0.07344310%
District's proportionate share of the net pension liability	\$ 15,941,742	\$ 17,173,051	\$ 24,489,031	\$ 20,797,525
District's covered payroll	\$ 8,395,829	\$ 7,899,436	\$ 7,803,407	\$ 7,729,721
District's proportionate share of the net pension liability as a percentage of its covered payroll	189.88%	217.40%	313.82%	269.06%
Plan fiduciary net position as a percentage of the total pension liability	77.31%	75.30%	66.80%	72.10%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>
0.07333389%	0.07333389%
\$ 17,837,340	\$ 21,247,723
\$ 7,492,700	\$ 7,872,454
238.06%	269.90%
74.70%	69.30%

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 400,519	\$ 378,792	\$ 376,165	\$ 364,451
Contributions in relation to the contractually required contribution	<u>(400,519)</u>	<u>(378,792)</u>	<u>(376,165)</u>	<u>(364,451)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 2,966,807	\$ 2,805,867	\$ 2,686,893	\$ 2,603,221
Contributions as a percentage of covered payroll	13.50%	13.50%	14.00%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 334,226	\$ 346,128	\$ 363,262	\$ 353,359	\$ 333,279	\$ 348,291
<u>(334,226)</u>	<u>(346,128)</u>	<u>(363,262)</u>	<u>(353,359)</u>	<u>(333,279)</u>	<u>(348,291)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,535,857	\$ 2,497,316	\$ 2,624,725	\$ 2,627,204	\$ 2,651,384	\$ 2,572,312
13.18%	13.86%	13.84%	13.45%	12.57%	13.54%

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 1,197,178	\$ 1,175,416	\$ 1,105,921	\$ 1,092,477
Contributions in relation to the contractually required contribution	<u>(1,197,178)</u>	<u>(1,175,416)</u>	<u>(1,105,921)</u>	<u>(1,092,477)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 8,551,271	\$ 8,395,829	\$ 7,899,436	\$ 7,803,407
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 1,082,161	\$ 974,051	\$ 1,023,419	\$ 1,063,090	\$ 1,086,276	\$ 1,059,740
<u>(1,082,161)</u>	<u>(974,051)</u>	<u>(1,023,419)</u>	<u>(1,063,090)</u>	<u>(1,086,276)</u>	<u>(1,059,740)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 7,729,721	\$ 7,492,700	\$ 7,872,454	\$ 8,177,615	\$ 8,355,969	\$ 8,151,846
14.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST THREE FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability	0.08160760%	0.08296710%	0.08450841%
District's proportionate share of the net OPEB liability	\$ 2,264,015	\$ 2,226,619	\$ 2,408,802
District's covered payroll	\$ 2,805,867	\$ 2,686,893	\$ 2,603,221
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	80.69%	82.87%	92.53%
Plan fiduciary net position as a percentage of the total OPEB liability	13.57%	12.46%	11.49%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY/ASSET
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST THREE FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability/asset	0.07250282%	0.07229171%	0.07316052%
District's proportionate share of the net OPEB liability/(asset)	\$ (1,165,046)	\$ 2,820,556	\$ 3,912,644
District's covered payroll	\$ 8,395,829	\$ 7,899,436	\$ 7,803,407
District's proportionate share of the net OPEB liability/asset as a percentage of its covered payroll	13.88%	35.71%	50.14%
Plan fiduciary net position as a percentage of the total OPEB liability/asset	176.00%	47.10%	37.30%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 67,530	\$ 59,128	\$ 45,938	\$ 49,122
Contributions in relation to the contractually required contribution	<u>(67,530)</u>	<u>(59,128)</u>	<u>(45,938)</u>	<u>(49,122)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 2,966,807	\$ 2,805,867	\$ 2,686,893	\$ 2,603,221
Contributions as a percentage of covered payroll	2.28%	2.11%	1.71%	1.89%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 64,611	\$ 48,411	\$ 43,656	\$ 54,496	\$ 76,867	\$ 49,560
<u>(64,611)</u>	<u>(48,411)</u>	<u>(43,656)</u>	<u>(54,496)</u>	<u>(76,867)</u>	<u>(49,560)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,535,857	\$ 2,497,316	\$ 2,624,725	\$ 2,627,204	\$ 2,651,384	\$ 2,572,312
2.55%	1.94%	1.66%	2.07%	2.90%	1.93%

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 8,551,271	\$ 8,395,829	\$ 7,899,436	\$ 7,803,407
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ -	\$ 75,204	\$ 78,725	\$ 81,776	\$ 83,560	\$ 81,518
-	(75,204)	(78,725)	(81,776)	(83,560)	(81,518)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 7,729,721	\$ 7,492,700	\$ 7,872,454	\$ 8,177,615	\$ 8,355,969	\$ 8,151,846
0.00%	1.00%	1.00%	1.00%	1.00%	1.00%

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

PENSION

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the changes in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%. There were no changes in benefit terms from the amounts previously reported for fiscal year 2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2018-2019.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, STRS decreased the Cost of Living Adjustment (COLA) to zero. There were no changes in benefit terms from amounts previously reported for fiscal year 2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumption affected the total pension liability since the prior measurement date: (a) the long term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation (e) the healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016 and (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2019.

(Continued)

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts previously reported for fiscal years 2017-2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement, and disability were updated to reflect recent experience, (e) mortality among active members was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to the following: RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement, (h) the municipal bond index rate increased from 2.92% to 3.56% and (i) the single equivalent interest rate, net of plan investment expense, including price inflation increased from 2.98% to 3.63%. For fiscal year 2019, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the discount rate increased from 3.63% to 3.70%, (b) the health care cost trend rate for Medicare were changed from a range of 5.50%-5.00% to a range of 5.375%-4.75% and Pre-Medicare were changed from a range of 7.50%-5.00% to a range of 7.25%-4.75%, (c) the municipal bond index rate increased from 3.56% to 3.62% and (i) the single equivalent interest rate, net of plan investment expense, including price inflation increased from 3.63% to 3.70%.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts previously reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. For fiscal year 2019, STRS increased the subsidy multiplier for non-Medicare benefit recipients from 1.9% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) 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 and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs. For fiscal year 2019, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and (b) decrease in trend rates from 6.00%-11.00 initial; 4.50% ultimate down to Medical Pre-Medicare 6.00% and Medicare 5.00% initial; 4.00% ultimate and Prescription Drug Pre-Medicare 8.00% and Medicare (5.23%) initial; 4.00% ultimate.

SUPPLEMENTARY INFORMATION

**SHELBY CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(C) PASS-THROUGH GRANT NUMBER	(A) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION			
(D) Child Nutrition Cluster: School Breakfast Program	10.553	2019	\$ 122,830
(D) National School Lunch Program	10.555	2019	441,106
(E) National School Lunch Program - Food Donation	10.555	2019	69,922
Total National School Lunch Program			511,028
Total U.S. Department of Agriculture and Child Nutrition Cluster			633,858
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION			
(F) Title I Grants to Local Educational Agencies	84.010	2018	49,436
(F) Title I Grants to Local Educational Agencies	84.010	2018	3,552
(F) Title I Grants to Local Educational Agencies	84.010	2019	328,930
Total Title I Grants to Local Educational Agencies			381,918
Special Education Cluster (IDEA):			
Special Education-Grants to States	84.027	2018	68,296
Special Education-Grants to States	84.027	2019	382,677
Special Education-Grants to States - Catastrophic	84.027	2019	268
Total Special Education Grants to States			451,241
Special Education-Preschool Grants	84.173	2018	1,250
Special Education-Preschool Grants	84.173	2019	15,489
Special Education-Preschool Grants - Restoration	84.173	2019	2,704
Total Special Education Preschool Grants			19,443
Total Special Education Cluster (IDEA)			470,684
Supporting Effective Instruction State Grant	84.367	2018	4,676
Supporting Effective Instruction State Grant	84.367	2019	61,300
Total Supporting Effective Instruction State Grant			65,976
(F) Student Support and Academic Enrichment Program	84.424	2018	195
(F) Student Support and Academic Enrichment Program	84.424	2019	24,005
Total Student Support and Academic Enrichment Program			24,200
Total U.S. Department of Education			942,778
Total Federal Financial Assistance			\$ 1,576,636

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

- (A) This schedule includes the federal award activity of the Shelby City School District under programs of the federal government for the fiscal year ended June 30, 2019 and is prepared in accordance with the cash basis of accounting. The information on this schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Shelby City School District, it is not intended to and does not present the financial position or changes in net position, of the Shelby City School District.
- (B) CFR Section 200.414 of the Uniform Guidance allows a non-federal entity that has never received a negotiated indirect cost rate to charge a de minimis rate of 10% of modified total direct costs to indirect costs. The Shelby City School District has not elected to use the 10% de minimis indirect cost rate.
- (C) OAKS did not assign pass-through numbers for fiscal year 2019.
- (D) Commingled with state and local revenue from sales of breakfast and lunches; assumed expenditures were made on a first-in, first-out basis
- (E) The Food Donation program is a non-cash, in kind, federal grant. Commodities are reported at the entitlement value.
- (F) Federal regulations require schools to obligate certain federal awards by June 30. However, with the Ohio Department of Education's consent, School District's can transfer unobligated amounts to the subsequent fiscal year or a similar program. During fiscal year 2019, the Shelby City School District, with the Ohio Department of Education's consent, transferred \$3,552 from Title IV-A Student Support and Academic Enrichment Program (CFDA #84.424) to Title I Grants to Local Educational Agencies (CFDA #84.010).



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

Shelby City School District
Richland County
25 High School Avenue
Shelby, Ohio 44875

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Shelby City School District, Richland County, Ohio as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Shelby City School District's basic financial statements and have issued our report thereon dated December 26, 2019.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Shelby City 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 Shelby City 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 Shelby City School District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Shelby City 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 Shelby City School District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
December 26, 2019



Julian & Grube, Inc.

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

Independent Auditor's Report on Compliance with Requirements Applicable to the Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

Shelby City School District
Richland County
25 High School Avenue
Shelby, Ohio 44875

To the Board of Education:

Report on Compliance for the Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Shelby City School District

Richland County

Independent Auditor's Report on Compliance with Requirements Applicable to the Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

Page 2

Opinion on the Major Federal Program

In our opinion, the Shelby City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the fiscal year ended June 30, 2019.

Report on Internal Control Over Compliance

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

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

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

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



Julian & Grube, Inc.

December 26, 2019

**SHELBY CITY SCHOOL DISTRICT
RICHLAND COUNTY, OHIO**

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

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unmodified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Program's Compliance Opinion</i>	Unmodified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under 2 CFR §200.516(a)?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Program (listed):</i>	Title I Grants to Local Educational Agencies, CFDA #84.010
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: \$750,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee under 2 CFR § 200.520?</i>	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

None

OHIO AUDITOR OF STATE KEITH FABER



SHELBY CITY SCHOOL DISTRICT

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY, 13 2020**