



OHIO AUDITOR OF STATE
KEITH FABER



**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	15
Statement of Activities.....	16
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	17
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	20
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund.....	21
Statement of Net Position – Proprietary Fund	22
Statement of Revenues, Expenses and Change in Net Position – Proprietary Fund	23
Statement of Cash Flows – Proprietary Fund.....	24
Notes to the Basic Financial Statements	25
Schedules of Required Supplementary Information:	
Schedule of the District's Proportionate Share of the Net Pension Liability - SERS	66
Schedule of the District's Proportionate Share of the Net Pension Liability - STRS	68
Schedule of District Pension Contributions - SERS.....	70
Schedule of District Pension Contributions - STRS.....	72
Schedule of the District's Proportionate Share of the Net OPEB Liability - SERS	74
Schedule of the District's Proportionate Share of the Net OPEB Liability/Asset - STRS	75
Schedule of District OPEB Contributions - SERS.....	76
Schedule of District OPEB Contributions - STRS.....	78
Notes to the Required Supplementary Information	80

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY

TABLE OF CONTENTS
(Continued)

TITLE	PAGE
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	83
Schedule of Findings.....	85
Corrective Action Plan (Prepared by Management)	87

OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT

Hillsdale Local School District
Ashland County
485 Township Road 1902
Jeromesville, Ohio 44840

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hillsdale Local School District, Ashland County, Ohio (the District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hillsdale Local School District, Ashland County, Ohio, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 3 to the financial statements, during 2020, the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Additionally, as discussed in Note 18 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the District. We did not modify our opinion regarding these matters.

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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2021, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

March 5, 2021

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
UNAUDITED**

The management's discussion and analysis of the Hillsdale Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2020. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2020 are as follows:

- In total, net position of governmental activities increased \$7,651,223 which represents a 263.05% increase from 2019's restated net position.
- General revenues accounted for \$17,595,529 in revenue or 89.20% of all revenues. Program specific revenues, in the form of charges for services and sales, grants and contributions accounted for \$2,130,569 or 10.80% of total revenues of \$19,726,098.
- The District had \$12,074,875 in expenses related to governmental activities; only \$2,130,569 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$17,595,529 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and the capital projects fund. The general fund had \$17,946,106 in revenues. The general fund also had \$17,763,991 in expenditures and other financing uses. During fiscal year 2020 the general fund's fund balance increased \$182,115 from a balance of \$8,014,222 to \$8,196,337.
- The capital projects fund had \$6,855,661 in revenue and other financing sources and \$2,061,805 in expenditures. During fiscal year 2020, the fund balance of the capital projects fund increased \$4,793,856 from a balance of \$1,776,873 to \$6,570,729.

Using the Basic Financial Statements (BFS)

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 and the capital projects fund are the most significant funds, and the only governmental funds reported as major funds.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
UNAUDITED

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 2020?" The statement of net position and the statement of activities answer this question. These statements include *all assets, liabilities, deferred inflows, deferred outflows, 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.

These two statements report the District's *net position* and changes in that 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.

The District's statement of net position and statement of activities can be found on pages 15-16 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 10. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and the capital projects 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* than 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 you 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. The basic governmental fund financial statements can be found on pages 17-21 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for employee benefits self-insurance. The basic proprietary fund financial statements can be found on pages 22-24 of this report.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
UNAUDITED

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. These notes to the basic financial statements can be found on pages 25-64 of this report.

Required Supplementary Information

The required supplementary information provides detailed information regarding the District's proportionate share of the net pension liability and net OPEB liability/asset of the retirement systems and a ten year schedule of District's contributions to the retirement systems to fund pension and OPEB obligations.

The District as a Whole

The table below provides a summary of the District's net position at June 30, 2020 and June 30, 2019.

	Net Position	
	Governmental Activities	Restated Governmental Activities
	<u>2020</u>	<u>2019</u>
<u>Assets</u>		
Current and other assets	\$ 34,645,583	\$ 17,805,540
Capital assets, net	<u>4,667,195</u>	<u>2,635,026</u>
Total assets	<u>39,312,778</u>	<u>20,440,566</u>
<u>Deferred Outflows of Resources</u>		
Pension	2,142,862	2,648,279
OPEB	<u>205,230</u>	<u>137,973</u>
Total deferred outflows of resources	<u>2,348,092</u>	<u>2,786,252</u>
<u>Liabilities</u>		
Current liabilities	1,393,093	1,739,219
Long-term liabilities:		
Due within one year	93,786	108,462
Due in more than one year:		
Net pension liability	10,242,185	9,789,888
Net OPEB liability	888,674	964,372
Other amounts	<u>902,174</u>	<u>875,212</u>
Total liabilities	<u>13,519,912</u>	<u>13,477,153</u>
<u>Deferred Inflows of Resources</u>		
Property taxes levied for next year	15,795,591	4,765,105
Pension	713,982	1,004,768
OPEB	<u>1,071,470</u>	<u>1,071,100</u>
Total deferred inflows of resources	<u>17,581,043</u>	<u>6,840,973</u>
<u>Net Position</u>		
Investment in capital assets	4,643,070	2,605,461
Restricted	340,126	301,260
Unrestricted	<u>5,576,719</u>	<u>1,971</u>
Total net position	<u>\$ 10,559,915</u>	<u>\$ 2,908,692</u>

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
UNAUDITED

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.

Governmental Accounting Standards Board 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.

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.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

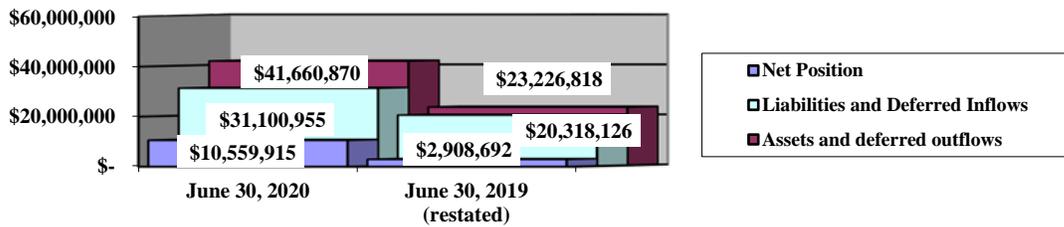
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
UNAUDITED**

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2020, the District's liabilities and deferred inflows exceeded assets and deferred outflows by \$10,559,915.

The large increase in current and other assets was primarily due to an increase in property taxes receivable for amounts the District will receive from the Rover Pipeline. At year-end, capital assets represented 11.87% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture, equipment, vehicles, textbooks, and infrastructure. Capital assets increased due to construction that began in fiscal year 2020 for the new school building project. The District's net investment in capital assets at June 30, 2020, was \$4,643,070. 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.

A portion of the District's net position, \$340,126, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net position is a balance of \$5,576,719. The graph below reports the District's governmental activities assets and deferred outflows, liabilities and deferred inflows, and net position at June 30, 2020 and 2019. The amounts of June 30, 2019 have been restated as described in Note 3.

Governmental Activities



The table below shows the change in net position for fiscal years 2020 and 2019. Due to practicality, 2019 revenues and expenses in the table below have not been adjusted to reflect the implementation of GASB No. 84 (see Note 3). Rather, the cumulative impact of applying GASB No. 84 is reflected in the beginning net position for 2019.

Change in Net Position

	Governmental Activities 2020	Restated Governmental Activities 2019
Revenues		
Program revenues:		
Charges for services and sales	\$ 1,065,127	\$ 925,477
Operating grants and contributions	1,065,442	842,966
General revenues:		
Property taxes	11,529,666	6,890,500
Income taxes	1,792,602	1,806,198
Grants and entitlements	3,972,313	4,135,311
Investment earnings	233,491	188,777
Other	67,457	46,981
Total revenues	19,726,098	14,836,210

- Continued

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
UNAUDITED

	Change in Net Position (Continued)	
	Governmental	Restated
	Activities	Governmental
	<u>2020</u>	<u>2019</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 4,436,671	\$ 4,416,369
Special	1,018,985	876,365
Vocational	336,075	312,930
Other	639,769	587,289
Support services:		
Pupil	1,140,364	1,115,178
Instructional staff	323,541	281,955
Board of education	101,198	73,658
Administration	856,510	708,932
Fiscal	503,398	422,847
Operations and maintenance	892,336	810,533
Pupil transportation	826,675	810,966
Central	75,876	2,747
Operation of non-instructional services:		
Food service operations	451,530	429,323
Other non-instructional services	12,340	12,602
Extracurricular activities	458,252	387,148
Interest and fiscal charges	<u>1,355</u>	<u>123</u>
Total expenses	<u>12,074,875</u>	<u>11,248,965</u>
Change in net position	7,651,223	3,587,245
Net position at beginning of year (restated)	<u>2,908,692</u>	<u>N/A</u>
Net position at end of year	<u>\$ 10,559,915</u>	<u>\$ 2,908,692</u>

Governmental Activities

Net position of the District's governmental activities increased \$7,651,223. Total governmental expenses of \$12,074,875 were offset by program revenues of \$2,130,569 and general revenues of \$17,595,529. Program revenues supported 17.64% of the total governmental expenses.

The residents of the District passed a 1.25% Earned Income Tax Levy (effective for 10 years) on the November 2013 ballot. Collections on this levy began in fiscal year 2014.

The large increase in property tax revenue was primarily due to amounts received from the construction of the Rover Pipeline.

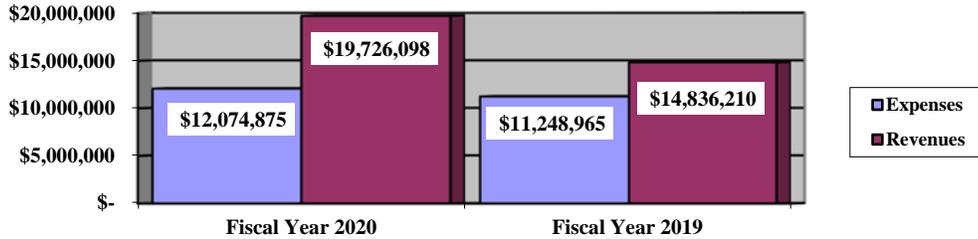
The largest expense of the District is for instructional programs. Instruction expenses totaled \$6,431,500 or 53.26% of total governmental expenses for fiscal 2020.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2020 and 2019.

Governmental Activities - Revenues and Expenses



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 <u>2020</u>	Net Cost of Services <u>2020</u>	Total Cost of Services <u>2019</u>	Net Cost of Services <u>2019</u>
Program expenses				
Instruction:				
Regular	\$ 4,436,671	\$ 3,724,457	\$ 4,416,369	\$ 3,787,429
Special	1,018,985	654,740	876,365	526,970
Vocational	336,075	274,933	312,930	252,662
Other	639,769	639,769	587,289	587,289
Support services:				
Pupil	1,140,364	856,693	1,115,178	928,397
Instructional staff	323,541	285,058	281,955	252,233
Board of education	101,198	101,198	73,658	73,658
Administration	856,510	856,240	708,932	708,796
Fiscal	503,398	503,128	422,847	422,577
Operations and maintenance	892,336	855,233	810,533	805,426
Pupil transportation	826,675	807,014	810,966	784,497
Central	75,876	75,581	2,747	2,747
Food service operations	451,530	46,016	429,323	62,706
Operations of non-instructional services	12,340	(942)	12,602	12,602
Extracurricular activities	458,252	263,833	387,148	272,410
Interest and fiscal charges	<u>1,355</u>	<u>1,355</u>	<u>123</u>	<u>123</u>
Total expenses	<u>\$ 12,074,875</u>	<u>\$ 9,944,306</u>	<u>\$ 11,248,965</u>	<u>\$ 9,480,522</u>

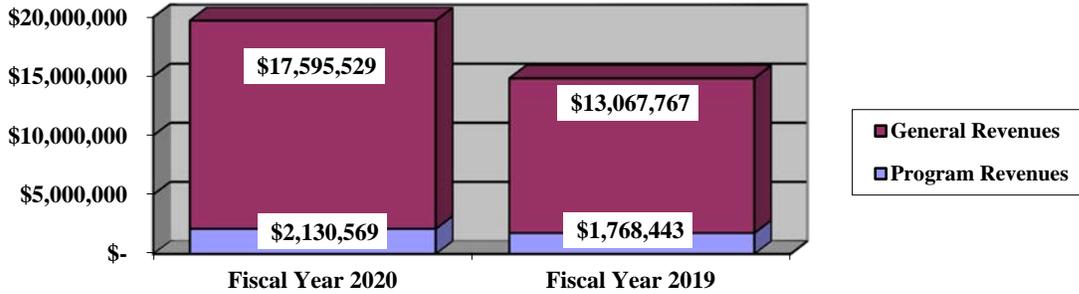
The dependence upon tax and other general revenues for governmental activities is apparent, 82.31% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.36%. The District's taxpayers and unrestricted grants and entitlements from the State of Ohio are the primary support for District's students.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
UNAUDITED

The graph below presents the District's governmental activities revenue for fiscal year 2020 and 2019.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 17) reported a combined fund balance of \$15,564,924, which is more than last year's restated total of \$10,365,856. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2020 and 2019.

	Fund Balance <u>June 30, 2020</u>	Restated Fund Balance <u>June 30, 2019</u>	<u>Change</u>
General	\$ 8,196,337	\$ 8,014,222	\$ 182,115
Capital projects	6,570,729	1,776,873	4,793,856
Other governmental	<u>797,858</u>	<u>574,761</u>	<u>223,097</u>
Total	<u>\$ 15,564,924</u>	<u>\$ 10,365,856</u>	<u>\$ 5,199,068</u>

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**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
UNAUDITED

General Fund

The District's general fund's fund balance increased by \$182,115. The large increase in revenue was primarily due to amounts received from the construction of the Rover Pipeline. This increase was offset by a transfer to the capital projects fund.

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

	<u>2020</u> <u>Amount</u>	<u>2019</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Property taxes	\$ 10,996,454	\$ 6,552,197	67.83 %
Income taxes	1,768,168	1,806,012	(2.10) %
Tuition	663,475	530,093	25.16 %
Earnings on investments	177,458	172,522	2.86 %
Intergovernmental	4,204,193	4,386,985	(4.17) %
Other revenues	<u>136,358</u>	<u>136,339</u>	0.01 %
Total	<u>\$ 17,946,106</u>	<u>\$ 13,584,148</u>	32.11 %
<u>Expenditures</u>			
Instruction	\$ 6,514,629	\$ 6,356,853	2.48 %
Support services	4,064,672	3,986,276	1.97 %
Operation of non-instructional services	2,340	10,679	(78.09) %
Extracurricular activities	347,454	314,552	10.46 %
Capital outlay	-	30,008	(100.00) %
Debt service	<u>6,795</u>	<u>566</u>	1,100.53 %
Total	<u>\$ 10,935,890</u>	<u>\$ 10,698,934</u>	2.21 %

Both general fund revenues and expenditures increased in fiscal year 2020.

Property taxes increased primarily due to revenue received from the construction of the Rover Pipeline. Tuition revenues increased by \$133,382 or 25.16% mainly due to increase payments received by the District as a result of open enrollment.

The overall increase in general fund expenditures was \$236,956. The decrease in capital outlay expenditures is due to the District entering into a lease for copiers in fiscal year 2019. The increase in debt service expenditures can be attributed to additional payments made on the copier lease in fiscal year 2020.

Capital Projects Fund

The capital projects fund had \$6,855,661 in revenues other financing sources and \$2,061,805 in expenditures. During fiscal year 2020, the fund balance of the capital projects fund increased \$4,793,856 from \$1,776,873 to \$6,570,729.

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.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
UNAUDITED

During the course of fiscal year 2020, the District amended its general fund budget. For the general fund, original budgeted revenues and other financing sources were \$16,509,483 while final budgeted revenues and other financing sources were \$17,456,131. Actual revenues and other financing sources for fiscal 2020 were \$17,947,621. This represents a \$491,490 decrease over final budgeted revenues.

General fund original and final budgeted appropriations were both \$16,509,483. The actual budget basis expenditures and other financing uses for fiscal year 2020 totaled \$17,688,186 which was \$1,178,703 greater than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2020, the District had \$4,667,195 invested in land, construction in progress, land improvements, buildings and improvements, furniture, equipment, vehicles, textbooks, and infrastructure. The entire amount is reported in governmental activities. The following table shows June 30, 2020 balances compared to June 30, 2019.

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

	<u>Governmental Activities</u>	
	<u>2020</u>	<u>2019</u>
Land	\$ 51,970	\$ 51,970
Construction in progress	2,004,179	-
Land improvements	254,535	147,136
Building and improvements	940,019	1,023,896
Furniture, equipment, vehicles, and textbooks	1,398,453	1,389,987
Infrastructure	<u>18,039</u>	<u>22,037</u>
Total	<u>\$ 4,667,195</u>	<u>\$ 2,635,026</u>

Total additions to capital assets for 2020 were \$2,341,773. Depreciation expense for fiscal 2020 was \$309,564. Overall, capital assets of the District increased \$2,032,169. See Note 9 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2020, the District had \$24,125 in capital lease obligations outstanding. Of this total, \$5,719 is due within one year and \$18,406 is due in greater than one year.

The following table summarizes the debt outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2020</u>	Governmental Activities <u>2019</u>
Capital lease obligations	\$ 24,125	\$ 29,565
Total	<u>\$ 24,125</u>	<u>\$ 29,565</u>

See Note 11 to the basic financial statements for additional information on the District's debt administration.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
UNAUDITED**

Current Financial Related Activities

The school district received an increase in revenue in Public Utility taxation as a result of the Rover Pipeline. The Rover Pipeline consists of two pipelines with approximately 20 miles of the pipeline crossing through the district. There is a compressor station that resides in the district that will add additional revenue starting in 2020. Property taxes made up 58.49% of revenues for governmental activities for the Hillsdale Local District in year 2020.

Effective July 1, 2020 with the new biennial budget we are anticipating revenue to remain flat. How legislation plans on funding education programs remain a concern.

Contacting the District's Financial Management

This financial report is designed to provide our 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 the Treasurer at 485 TR 1902, Jeromesville, Ohio, 419-368-8503.

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**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2020

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 14,169,188
Cash with fiscal agent	1,081,532
Receivables:	
Property taxes	17,883,486
Income taxes.	647,912
Accrued interest	20,261
Intergovernmental	55,469
Prepayments	169,918
Materials and supplies inventory.	2,974
Inventory held for resale.	2,156
Net OPEB Asset	612,687
Discretionary	-
Capital assets:	
Nondepreciable capital assets	2,056,149
Depreciable capital assets, net.	2,611,046
Capital assets, net	4,667,195
Total assets.	39,312,778
Deferred outflows of resources:	
Pension	2,142,862
OPEB	205,230
Total deferred outflows of resources	2,348,092
Liabilities:	
Accounts payable.	67,734
Accrued wages and benefits payable	963,130
Intergovernmental payable	62,982
Pension and postemployment benefits payable.	165,354
Claims payable.	133,893
Long-term liabilities:	
Due within one year.	93,786
Due in more than one year:	
Net pension liability	10,242,185
Net OPEB liability	888,674
Other amounts due in more than one year	902,174
Total liabilities	13,519,912
Deferred inflows of resources:	
Property taxes levied for the next fiscal year.	15,795,591
Pension	713,982
OPEB	1,071,470
Total deferred inflows of resources	17,581,043
Net position:	
Investment in capital assets	4,643,070
Restricted for:	
Capital projects	281,459
Locally funded programs	9,088
State funded programs.	20,314
Student activities	26,843
Other purposes	2,422
Unrestricted	5,576,719
Total net position	\$ 10,559,915

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	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	\$ 4,436,671	\$ 701,903	\$ 10,311	\$ (3,724,457)
Special	1,018,985	24,343	339,902	(654,740)
Vocational	336,075	-	61,142	(274,933)
Other	639,769	-	-	(639,769)
Support services:				
Pupil.	1,140,364	-	283,671	(856,693)
Instructional staff	323,541	-	38,483	(285,058)
Board of education	101,198	-	-	(101,198)
Administration.	856,510	-	270	(856,240)
Fiscal.	503,398	-	270	(503,128)
Operations and maintenance	892,336	6,130	30,973	(855,233)
Pupil transportation.	826,675	-	19,661	(807,014)
Central	75,876	-	295	(75,581)
Operation of non-instructional services:				
Other non-instructional services	12,340	-	13,282	942
Food service operations	451,530	138,772	266,742	(46,016)
Extracurricular activities.	458,252	193,979	440	(263,833)
Interest and fiscal charges	1,355	-	-	(1,355)
Total governmental activities	\$ 12,074,875	\$ 1,065,127	\$ 1,065,442	(9,944,306)
General revenues:				
Property taxes levied for:				
General purposes				10,980,845
Capital outlay.				548,821
Income taxes levied for:				
General purposes				1,792,602
Grants and entitlements not restricted to specific programs				3,972,313
Investment earnings				233,491
Miscellaneous				67,457
Total general revenues				17,595,529
Change in net position				7,651,223
Net position at beginning of year (restated)				2,908,692
Net position at end of year.				\$ 10,559,915

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 6,764,685	\$ 6,570,014	\$ 834,489	\$ 14,169,188
Receivables:				
Property taxes.	17,288,230	-	595,256	17,883,486
Income taxes	647,912	-	-	647,912
Accrued interest	18,962	1,299	-	20,261
Interfund loans	42,566	-	-	42,566
Intergovernmental.	25,861	-	29,608	55,469
Prepayments.	160,590	-	9,328	169,918
Materials and supplies inventory.	2,729	-	245	2,974
Inventory held for resale.	-	-	2,156	2,156
Total assets	<u>\$ 24,951,535</u>	<u>\$ 6,571,313</u>	<u>\$ 1,471,082</u>	<u>\$ 32,993,930</u>
Liabilities:				
Accounts payable	\$ 19,644	\$ 584	\$ 47,506	\$ 67,734
Accrued wages and benefits payable	921,430	-	41,700	963,130
Compensated absences payable	12,007	-	-	12,007
Intergovernmental payable	62,392	-	590	62,982
Pension and postemployment benefits payable	155,186	-	10,168	165,354
Interfund loans payable.	-	-	42,566	42,566
Total liabilities.	<u>1,170,659</u>	<u>584</u>	<u>142,530</u>	<u>1,313,773</u>
Deferred inflows of resources:				
Property taxes levied for the next fiscal year.	15,269,831	-	525,760	15,795,591
Delinquent property tax revenue not available.	143,293	-	4,934	148,227
Income tax revenue not available	162,300	-	-	162,300
Intergovernmental revenue not available.	5,271	-	-	5,271
Accrued interest not available.	3,844	-	-	3,844
Total deferred inflows of resources	<u>15,584,539</u>	<u>-</u>	<u>530,694</u>	<u>16,115,233</u>
Fund balances:				
Nonspendable:				
Materials and supplies inventory.	2,729	-	245	2,974
Prepays.	160,590	-	9,328	169,918
Restricted:				
Capital improvements	-	-	276,525	276,525
Special education	-	-	126	126
Other purposes.	-	-	15,895	15,895
Extracurricular.	-	-	92,299	92,299
Student wellness and success.	-	-	15,803	15,803
Committed:				
Capital improvements	-	6,570,729	448,310	7,019,039
Assigned:				
Student and staff support.	59,358	-	-	59,358
School supplies	9,840	-	-	9,840
Unassigned (deficit)	7,963,820	-	(60,673)	7,903,147
Total fund balances	<u>8,196,337</u>	<u>6,570,729</u>	<u>797,858</u>	<u>15,564,924</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 24,951,535</u>	<u>\$ 6,571,313</u>	<u>\$ 1,471,082</u>	<u>\$ 32,993,930</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2020

Total governmental fund balances		\$	15,564,924
 <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.			4,667,195
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	148,227	
Income taxes receivable		162,300	
Intergovernmental receivable		5,271	
Accrued interest receivable		3,844	
Total		319,642	319,642
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position.			947,639
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds.			
Capital lease obligations		(24,125)	
Compensated absences		(959,828)	
Total		(983,953)	(983,953)
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 - pension		2,142,862	
Deferred Inflows - pension		(713,982)	
Net pension liability		(10,242,185)	
Total		(8,813,305)	(8,813,305)
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 - OPEB		205,230	
Deferred Inflows - OPEB		(1,071,470)	
Net OPEB asset		612,687	
Net OPEB liability		(888,674)	
Total		(1,142,227)	(1,142,227)
Net position of governmental activities		\$	10,559,915

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Property taxes	\$ 10,996,454	\$ -	\$ 552,757	\$ 11,549,211
Income taxes.	1,768,168	-	-	1,768,168
Tuition.	663,475	-	-	663,475
Earnings on investments	177,458	30,661	-	208,119
Charges for services	-	-	138,772	138,772
Extracurricular.	-	-	193,979	193,979
Classroom materials and fees	28,234	-	-	28,234
Rental income	6,130	-	-	6,130
Contributions and donations	2,122	-	7,695	9,817
Other local revenues	99,872	-	1,096	100,968
Intergovernmental - intermediate	-	-	18,635	18,635
Intergovernmental - state	4,174,933	-	174,860	4,349,793
Intergovernmental - federal	29,260	-	642,264	671,524
Total revenues	<u>17,946,106</u>	<u>30,661</u>	<u>1,730,058</u>	<u>19,706,825</u>
Expenditures:				
Current:				
Instruction:				
Regular.	4,612,806	-	78,217	4,691,023
Special	939,180	-	151,476	1,090,656
Vocational	322,923	-	3,636	326,559
Other	639,720	-	-	639,720
Support services:				
Pupil	843,167	-	279,808	1,122,975
Instructional staff	284,037	-	46,229	330,266
Board of education	43,782	57,042	-	100,824
Administration	875,439	-	270	875,709
Fiscal	484,212	-	10,624	494,836
Operations and maintenance	720,872	-	65,934	786,806
Pupil transportation	741,443	-	80,301	821,744
Central	71,720	-	40	71,760
Operation of non-instructional services:				
Other operation of non-instructional.	2,340	-	10,000	12,340
Food service operations.	-	-	432,538	432,538
Extracurricular activities	347,454	-	208,333	555,787
Facilities acquisition and construction.	-	2,004,763	142,656	2,147,419
Debt service:				
Principal retirement.	5,440	-	-	5,440
Interest and fiscal charges	1,355	-	-	1,355
Total expenditures	<u>10,935,890</u>	<u>2,061,805</u>	<u>1,510,062</u>	<u>14,507,757</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>7,010,216</u>	<u>(2,031,144)</u>	<u>219,996</u>	<u>5,199,068</u>
Other financing sources (uses):				
Transfers in.	-	6,825,000	3,101	6,828,101
Transfers (out)	<u>(6,828,101)</u>	<u>-</u>	<u>-</u>	<u>(6,828,101)</u>
Total other financing sources (uses)	<u>(6,828,101)</u>	<u>6,825,000</u>	<u>3,101</u>	<u>-</u>
Net change in fund balances	182,115	4,793,856	223,097	5,199,068
Fund balances at beginning of year (restated).	<u>8,014,222</u>	<u>1,776,873</u>	<u>574,761</u>	<u>10,365,856</u>
Fund balances at end of year.	<u>\$ 8,196,337</u>	<u>\$ 6,570,729</u>	<u>\$ 797,858</u>	<u>\$ 15,564,924</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND 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, 2020

Net change in fund balances - total governmental funds	\$	5,199,068
<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	\$ 2,341,733	
Current year depreciation	(309,564)	
Total		2,032,169
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(19,545)	
Income taxes	24,434	
Intergovernmental	1,635	
Earnings on investments	989	
Miscellaneous	(12,623)	
Total		(5,110)
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.		
		(22,557)
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. Principal payments during the year were:		
		5,440
An internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		926,413
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		794,031
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(1,460,959)
Contractually required OPEB contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		23,254
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.		
		159,474
Change in net position of governmental activities	\$	7,651,223

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND 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, 2020

	<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	\$ 9,483,015	\$ 10,536,021	\$ 10,950,935	\$ 414,914
Income taxes.	1,741,449	1,775,949	1,834,712	58,763
Tuition.	556,120	567,075	663,475	96,400
Earnings on investments	236,742	206,656	143,166	(63,490)
Classroom materials and fees	10,381	11,576	16,357	4,781
Rental income	772	1,992	5,750	3,758
Contributions and donations	5,000	3,615	22	(3,593)
Other local revenues	308	4,869	18,626	13,757
Intergovernmental - state	4,360,377	4,189,436	4,172,715	(16,721)
Intergovernmental - federal	11,961	10,584	7,806	(2,778)
Total revenues	<u>16,406,125</u>	<u>17,307,773</u>	<u>17,813,564</u>	<u>505,791</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,988,260	6,988,260	4,531,729	2,456,531
Special.	1,382,192	1,382,192	910,863	471,329
Vocational.	514,398	514,398	317,817	196,581
Other.	870,701	870,701	639,620	231,081
Support services:				
Pupil.	1,389,302	1,389,302	847,228	542,074
Instructional staff	449,805	449,805	283,314	166,491
Board of education	91,417	91,417	43,489	47,928
Administration.	1,222,375	1,222,375	872,833	349,542
Fiscal	657,181	657,181	464,386	192,795
Operations and maintenance.	1,178,907	1,178,907	734,891	444,016
Pupil transportation	1,169,856	1,169,856	772,792	397,064
Central.	81,159	81,159	67,123	14,036
Other operation of non-instructional services	14,597	14,597	2,340	12,257
Extracurricular activities.	499,333	499,333	329,094	170,239
Total expenditures	<u>16,509,483</u>	<u>16,509,483</u>	<u>10,817,519</u>	<u>5,691,964</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(103,358)</u>	<u>798,290</u>	<u>6,996,045</u>	<u>6,197,755</u>
Other financing sources (uses):				
Refund of prior year's expenditures	25,837	25,837	53,041	27,204
Transfers (out).	-	-	(6,828,101)	(6,828,101)
Advances in.	32,021	32,021	32,021	-
Advances (out)	-	-	(42,566)	(42,566)
Sale of capital assets	45,500	90,500	48,995	(41,505)
Total other financing sources (uses)	<u>103,358</u>	<u>148,358</u>	<u>(6,736,610)</u>	<u>(6,884,968)</u>
Net change in fund balance	-	946,648	259,435	(687,213)
Fund balance at beginning of year	<u>6,378,270</u>	<u>6,378,270</u>	<u>6,378,270</u>	<u>-</u>
Fund balance at end of year	<u>\$ 6,378,270</u>	<u>\$ 7,324,918</u>	<u>\$ 6,637,705</u>	<u>\$ (687,213)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2020

	<u>Governmental Activities - Internal Service Fund</u>
Assets:	
Cash with fiscal agent.	\$ 1,081,532
Total assets.	<u>1,081,532</u>
Liabilities:	
Claims payable	<u>133,893</u>
Total liabilities	<u>133,893</u>
Net position:	
Unrestricted.	<u>947,639</u>
Total net position.	<u><u>\$ 947,639</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGE IN NET POSITION
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Governmental Activities - Internal Service Fund
Operating revenues:	
Sales/charges for services.	\$ 2,671,312
Total operating revenues	<u>2,671,312</u>
Operating expenses:	
Purchased services.	646,424
Claims	1,122,858
Total operating expenses.	<u>1,769,282</u>
Operating gain	<u>902,030</u>
Nonoperating revenues:	
Interest revenue	24,383
Total nonoperating revenues.	<u>24,383</u>
Change in net position	926,413
Net position at beginning of year.	<u>21,226</u>
Net position at end of year	<u><u>\$ 947,639</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from sales/charges for services.	\$ 2,318,572
Cash payments for contractual services	(646,424)
Cash payments for claims	(1,267,860)
Net cash provided by operating activities	404,288
Cash flows from investing activities:	
Interest received	24,383
Net cash provided by investing activities	24,383
Net change in cash with fiscal agent	428,671
Cash and cash equivalents at beginning of year	652,861
Cash and cash equivalents at end of year	\$ 1,081,532
Reconciliation of operating gain to net cash provided by operating activities:	
Operating gain.	\$ 902,030
Changes in assets and liabilities:	
Unearned revenue	(352,740)
Claims payable	(145,002)
Net cash provided by operating activities.	\$ 404,288

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Hillsdale Local School District (the “District”) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local school district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education, consisting of five members and is responsible for providing public education to residents of the District.

The District employs 46 non-certified and 68 certified full-time and part-time employees to provide services to 822 students.

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).

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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

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

JOINTLY GOVERNED ORGANIZATIONS

Tri-County Computer Service Association

The Tri-County Computer Service Association (TCCSA) is a jointly governed organization comprised of 20 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic technology for administrative and instructional functions for member school districts. Each of the governments of these school districts supports TCCSA based on a per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating school district and a representative from the fiscal agent. TCCSA is governed by a Board of Directors chosen from the general membership of the TCCSA assembly. The Board of Directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating school districts are located. Financial information can be obtained by contacting the treasurer at Tri-County Educational Services Center, which serves as fiscal agent, located in Wooster, Ohio. During the fiscal year ended June 30, 2020, the District paid \$860,976 to TCCSA.

Ashland County - West Holmes Career Center

The Ashland County-West Holmes Career Center (the "Career Center"), a joint vocational school established by the Ohio Revised Code, is a jointly governed organization providing vocational services to its eleven-member school districts. The Career Center is governed by a board of education comprised of eleven members appointed by the participating schools. The board controls the financial activity of the Career Center and reports to the Ohio Department of Education and the Auditor of the State of Ohio. The Board possesses its own budgetary and taxing authority. Financial information can be obtained by contacting the Career Center treasurer.

INSURANCE PURCHASING POOLS

Jefferson Health Plan

The District is a participant with several other school districts in an insurance purchasing pool to operate the Jefferson Health Plan. The Jefferson Health Plan was formed for the purpose of providing insurance. The Jefferson Health Plan is governed by a Board of Directors consisting of the superintendents and treasurers of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board.

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP was established under Section 4123.29 of the Ohio Revised Code. The GRP's business and affairs are conducted by a three-member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

Ohio School Plan

The District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The OSP is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the OSP to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district's superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

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 two categories of funds: governmental and proprietary.

GOVERNMENTAL FUNDS

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

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.

Capital projects fund - The capital projects fund is used to accumulate money for one or more capital projects.

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 other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

Internal service fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical benefits to employees.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

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. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

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. The internal service fund is presented in a single column on the face of the proprietary fund statements.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current deferred outflows and current liabilities and current 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.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and deferred outflows and all liabilities and deferred inflows associated with the operation of this fund are included on the statement of fund net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenue of the District's internal service fund is charges for services. Operating expenses for the internal service fund includes claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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.

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 taxes, 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) and revenue from income taxes is recognized in the year in which the income is earned (See 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 the District's net pension liability and net OPEB liability/asset, respectively.

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, 2020, but which were levied to finance fiscal year 2021 operations. These amounts have 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, but is not limited to, 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.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

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 used during the fiscal 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

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

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

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

F. Cash and Investments

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

During fiscal year 2020, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio), and negotiable certificates of deposit (CDs).

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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

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 2020, 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, unless statutorily required to be credited to a specific fund or by Board resolution. Interest revenue credited to the general fund during fiscal year 2020 amounted to \$177,458, which includes \$58,695 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

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.

Inventory consists of expendable supplies held for consumption. Inventory held for resale consists of donated food and purchased food.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary fund. These assets generally 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 retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The District maintains a capitalization threshold of \$3,000. 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.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

All reported capital assets except land and construction in progress are 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>	<u>Governmental Activities Estimated Lives</u>
Land improvements	5 - 50 years
Buildings and improvements	5 - 50 years
Furniture, equipment, vehicles, and textbooks	5 - 20 years
Infrastructure	5 - 50 years

I. Interfund Balances

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

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the District’s past experience of making termination 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, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

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 year. Bonds and notes are recognized as a liability 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.

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.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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

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

N. 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 net position statement/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 year in which services are consumed.

O. 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.

P. 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 and after nonoperating revenues/expenses in the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Q. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. The District had no restricted assets at June 30, 2020.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

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 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. Neither type of transaction occurred during fiscal year 2020.

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 2020, the District has implemented GASB Statement No. 84, "*Fiduciary Activities*" and GASB Statement No. 90, "*Majority Equity Interests - an amendment to GASB Statements No. 14 and No. 61*".

GASB Statement No. 84 establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities. Due to the implementation of GASB Statement No. 84, the District will no longer be reporting agency funds. The District reviewed its agency funds and these funds have been reclassified as governmental funds. These fund reclassifications resulted in the restatement of the District's financial statements.

GASB Statement No. 90 improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The implementation of GASB Statement No. 90 did not have an effect on the financial statements of the District.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Restatement of Net Position and Fund Balances

The implementation of GASB 84 had the following effect on fund balance as reported at June 30, 2019:

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Fund Balance as previously reported	\$ 8,014,222	\$ 1,776,873	\$ 516,686	\$ 10,307,781
GASB Statement No. 84	-	-	<u>58,075</u>	<u>58,075</u>
Restated Fund Balance, at June 30, 2019	<u>\$ 8,014,222</u>	<u>\$ 1,776,873</u>	<u>\$ 574,761</u>	<u>\$ 10,365,856</u>

The implementation of the GASB 84 pronouncement had the following effect on the net position as reported at June 30, 2019:

	Governmental Activities
Net position as previously reported	\$ 2,850,617
GASB Statement No. 84	<u>58,075</u>
Restated net position at June 30, 2019	<u>\$ 2,908,692</u>

Related to the implementation of GASB Statement No. 84, the School District will no longer be reporting agency funds. At June 30, 2019, agency funds reported assets and liabilities of \$58,204.

C. Deficit Fund Balances

Fund balances at June 30, 2020 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Food service	\$ 48,218
IDEA Part B	623
Title I	2,259

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.

D. Budgetary Noncompliance

Contrary to Ohio Rev. Code section 5705.41(B), General Fund expenditures exceeded appropriations by \$1,136,137 at June 30, 2020.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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 Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio; 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 items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool, the State Treasury Asset Reserve of Ohio (STAR Ohio); and
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 40 percent of the interim monies available for investment at any one time if training requirements have been met.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

At fiscal year end, the District had \$25 in undeposited cash on hand which is included on the financial statements of the District as part of “equity in pooled cash and cash equivalents”.

B. Cash with Fiscal Agent

The District is self-insured through a fiscal agent (See Note 12.D.). The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2020 was \$1,081,532. This represents the balance of the District’s employee benefit self-insurance fund. This amount is not included in the “deposits” or “investments” reported below.

C. Deposits with Financial Institutions

At June 30, 2020, the carrying amount of all District deposits was \$6,703,890, and the bank balance of all District deposits was \$7,080,747. As of June 30, 2020, all of the District’s bank balance was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the District’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 2020, the District’s financial institutions were approved for a reduced collateral rate of 50 percent through the OPCS.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Investments

As of June 30, 2020, the District had the following investments and maturities:

<u>Measurement/Investment type</u>	<u>Measurement Value</u>	<u>6 months or less</u>	<u>Investment Maturity</u>			
			<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>	<u>Greater than 24 months</u>
<i>Fair value:</i>						
Negotiable CDs	\$ 3,015,198	\$ 735,415	\$ 506,810	\$ 503,011	\$ 1,022,715	\$ 247,247
<i>Amortized cost:</i>						
STAR Ohio	<u>4,450,075</u>	<u>4,450,075</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 7,465,273</u>	<u>\$ 5,185,490</u>	<u>\$ 506,810</u>	<u>\$ 503,011</u>	<u>\$ 1,022,715</u>	<u>\$ 247,247</u>

The weighted average maturity of investments is 0.48 years.

The District's investments in negotiable certificates of deposit are valued using quoted market prices that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly (Level 2 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.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The negotiable CDs were not rated. The negotiable certificates of deposit are fully insured by the FDIC. The District's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the 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, 2020:

<u>Measurement/Investment type</u>	<u>Measurement Value</u>	<u>% of Total</u>
<i>Fair Value:</i>		
Negotiable CDs	\$ 3,015,198	40.39
<i>Amortized cost:</i>		
STAR Ohio	<u>4,450,075</u>	<u>59.61</u>
Total	<u>\$ 7,465,273</u>	<u>100.00</u>

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 investments as reported on the statement of net position as of June 30, 2020:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 6,703,890
Investments	7,465,273
Cash with fiscal agent	1,081,532
Cash on hand	<u>25</u>
Total	<u>\$ 15,250,720</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	<u>\$ 15,250,720</u>
Total	<u>\$ 15,250,720</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund balances at June 30, 2020 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	<u>\$ 42,566</u>

The primary purpose of the interfund balance is to cover costs in specific funds where revenues were not received by June 30. The interfund balances will be repaid once the anticipated revenues are received. The interfund balance is expected to be repaid within one year. Interfund balances between governmental funds are eliminated on the government-wide financial statements.

- B.** Interfund transfers for the fiscal year ended June 30, 2020, consisted of the following, as reported on the fund financial statements:

<u>Transfer from the General fund to:</u>	
Capital Projects fund	\$ 6,825,000
Nonmajor governmental funds	<u>3,101</u>
Total	<u>\$ 6,828,101</u>

The transfer of \$6,825,000 was made to move resources to the capital projects fund from the general fund to finance a project that the District began in fiscal year 2020. The primary purpose of the \$3,101 transfer from the general fund to the food service fund (a nonmajor governmental fund) is to cover negative cash balance in the fund. Interfund transfers between governmental funds are eliminated on the statement of activities.

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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 2020 represent the collection of calendar year 2019 taxes. Real property taxes received in calendar year 2020 were levied after April 1, 2019, on the assessed values as of January 1, 2019, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised fair value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2020 represent the collection of calendar year 2019 taxes. Public utility real and personal property taxes received in calendar year 2020 became a lien on December 31, 2018, were levied after April 1, 2019, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Ashland 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, 2020, are available to finance fiscal year 2020 operations. The amount available as an advance at June 30, 2020 was \$1,875,106 in the general fund and \$64,562 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2019 was \$1,829,587 in the general fund and \$102,133 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, 2020 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 of resources.

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 of resources.

The assessed values upon which the fiscal year 2020 taxes were collected are:

	2019 Second Half Collections		2020 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 151,303,110	71.44	\$ 153,573,070	34.66
Public utility personal	<u>60,490,210</u>	<u>28.56</u>	<u>289,538,990</u>	<u>65.34</u>
Total	<u>\$ 211,793,320</u>	<u>100.00</u>	<u>\$ 443,112,060</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$49.40		\$49.40	

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 7 - RECEIVABLES

Receivables at June 30, 2020 consisted of property taxes, income taxes, accrued interest, 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 list of the receivables on the statement of net position follows:

Governmental activities:

Property taxes	\$ 17,883,486
Income taxes	647,912
Accrued interest	20,261
Intergovernmental	<u>55,469</u>
Total	<u>\$ 18,607,128</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 TAXES

On the November 2013 ballot, the residents of the District approved a 1.25% Earned Income Tax Levy effective until 2023. The voted income tax will apply to income on residents and on estates and will be used for general operations of the District. Employers of residents are required to withhold income tax on employee compensation and then remit that income tax to the State, and 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 in the amount of \$1,768,168 for fiscal year 2020.

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2020, was as follows:

	Balance <u>June 30, 2019</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2020</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 51,970	\$ -	\$ -	\$ 51,970
Construction in progress	<u>-</u>	<u>2,004,179</u>	<u>-</u>	<u>2,004,179</u>
Total capital assets, not being depreciated	<u>51,970</u>	<u>2,004,179</u>	<u>-</u>	<u>2,056,149</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	397,798	120,948	-	518,746
Buildings and improvements	3,398,373	3,706	-	3,402,079
Furniture, equipment, vehicles, and textbooks	4,185,696	212,900	(6,450)	4,392,146
Infrastructure	<u>36,045</u>	<u>-</u>	<u>-</u>	<u>36,045</u>
Total capital assets, being depreciated	<u>8,017,912</u>	<u>337,554</u>	<u>(6,450)</u>	<u>8,349,016</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(250,662)	(13,549)	-	(264,211)
Buildings and improvements	(2,374,477)	(87,583)	-	(2,462,060)
Furniture, equipment, vehicles, and textbooks	(2,795,709)	(204,434)	6,450	(2,993,693)
Infrastructure	<u>(14,008)</u>	<u>(3,998)</u>	<u>-</u>	<u>(18,006)</u>
Total accumulated depreciation	<u>(5,434,856)</u>	<u>(309,564)</u>	<u>6,450</u>	<u>(5,737,970)</u>
Governmental activities capital assets, net	<u>\$ 2,635,026</u>	<u>\$ 2,032,169</u>	<u>\$ -</u>	<u>\$ 4,667,195</u>

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 9 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 140,581
Vocational	12,792
<u>Support services:</u>	
Pupil	731
Administration	538
Operations and maintenance	11,531
Pupil transportation	118,166
Food service operations	7,106
Extracurricular	<u>18,119</u>
Total depreciation expense	<u>\$ 309,564</u>

NOTE 10 - CAPITALIZED LEASE

During fiscal year 2019, the District entered into a capitalized lease for copiers. The lease meets the criteria of a capital lease which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis. Capital assets acquired by lease have been originally capitalized in the amount of \$30,008, which represents the present value of the future minimum lease payments at the time of acquisition.

Principal and interest payments in the 2020 fiscal year totaled \$5,440 and \$1,355 respectively. These amounts are reported as debt service payments of the general fund.

The capitalized assets acquired through capital leases are as follows:

Assets:	
Equipment (copiers)	\$ 30,008
Less: accumulated depreciation	<u>(9,002)</u>
Total	<u>\$ 21,006</u>

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2020.

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 6,795
2022	6,795
2023	6,795
2024	<u>6,229</u>
Total minimum lease payments	26,614
Less: amount representing interest	<u>(2,489)</u>
Total	<u>\$ 24,125</u>

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 11 - LONG-TERM OBLIGATIONS

- A. During the fiscal year 2020, the following changes occurred in governmental activities long-term obligations.

	Balance Outstanding			Balance Outstanding		Amounts Due in
	<u>June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2020</u>	<u>One Year</u>	
Net pension liability	\$ 9,789,888	\$ 452,297	\$ -	\$ 10,242,185	\$ -	-
Net OPEB liability	964,372	-	(75,698)	888,674	-	-
Capital lease	29,565	-	(5,440)	24,125	5,719	5,719
Compensated absences	<u>954,109</u>	<u>46,571</u>	<u>(28,845)</u>	<u>971,835</u>	<u>88,067</u>	<u>88,067</u>
Total governmental activities	<u>\$ 11,737,934</u>	<u>\$ 498,868</u>	<u>\$ (109,983)</u>	<u>\$ 12,126,819</u>	<u>\$ 93,786</u>	<u>\$ 93,786</u>

The District's net pension liability is described in Note 13. The District pays obligations related to employee compensation from the fund benefitting from their service.

The District's net OPEB liability/asset is described in Note 14. The District pays obligations related to employee compensation from the fund benefitting from their service.

Capital leases were paid from the general fund. See Note 10 for more details.

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

B. 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, 2020, are a voted debt margin of \$39,880,085 and an unvoted debt margin of \$443,112.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2020, the District contracted for the following insurance coverage.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

NOTE 12 - RISK MANAGEMENT - (Continued)

Coverage provided by the Ohio School Plan is as follows:

General Liability	\$5,000,000
General Aggregate Limit	\$7,000,000
Blanket Property (\$1,000 deductible)	\$38,820,416
Vehicle Liability	\$5,000,000
Uninsured/Underinsured Motorists	\$1,000,000

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

For fiscal year 2020, the District participated in the Ohio School Plan (“the Plan”), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

B. Fidelity Bond

The Board President and Superintendent hold position bonds and the Treasurer/CFO holds a Treasurer bond through OSBA with limits of \$20,000, \$20,000 and \$100,000, respectively. All other school employees are covered under the District’s employee dishonesty coverage with a \$100,000 limit, with a \$1,000 deductible, which is separate from the property policy.

C. Workers’ Compensation

The District pays the State Workers’ Compensation System a premium based on a rate per \$100 of salaries. For fiscal year 2020, the District participated in the Ohio School Boards Association Workers’ Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers’ compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers’ compensation premium to the state based on the rate for the GRP rather than its individual rate.

Participation in the GRP is limited to school districts that can meet the GRP’s selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

D. Employee Health Insurance

Medical/surgical, prescription, vision and dental insurance is offered to employees through a self-insurance program. The District has established a self-insurance internal service fund to account for this activity. The District is a member of the Jefferson Health Plan (formerly known as OME-RESA Health Benefits Program), a partially self-insured consortium of public employers in Ohio. The consortium has over 100 member organizations participating. Monthly accruals are paid to a custodian bank, U.S. Bank, acting as trustee on behalf of the fiscal agent. The trustees disburse payments to vendors for services rendered and to satisfy claim reimbursements for covered plan participants. The Jefferson County ESC acts in the role of fiscal agent for the consortium.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 12 - RISK MANAGEMENT - (Continued)

The claims liability of \$133,893 reported in the internal service fund at June 30, 2020 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, “Accounting and Financial Reporting for Risk Financing and Related Insurance Issues”, as amended by GASB Statement No. 30, “Risk Financing Omnibus”, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2020	\$ 278,895	\$ 1,122,858	\$ (1,267,860)	\$ 133,893
2019	194,016	2,140,059	(2,055,180)	278,895

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.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description - District Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full benefits	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, 2020, the allocation to pension, death benefits, and Medicare B was 14.0%.

The District's contractually required contribution to SERS was \$174,527 for fiscal year 2020. Of this amount, \$43,348 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.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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 28 years of service, or 33 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 2020, 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 2020 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$619,504 for fiscal year 2020. Of this amount, \$105,476 is reported as pension and postemployment benefits payable.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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, 2019, 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	0.03414520%	0.03563042%	
Proportion of the net pension liability current measurement date	<u>0.03445470%</u>	<u>0.03699264%</u>	
Change in proportionate share	<u>0.00030950%</u>	<u>0.00136222%</u>	
Proportionate share of the net pension liability	\$ 2,061,485	\$ 8,180,700	\$ 10,242,185
Pension expense	\$ 329,850	\$ 1,131,109	\$ 1,460,959

At June 30, 2020, 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	\$ 52,275	\$ 66,604	\$ 118,879
Changes of assumptions	-	960,980	960,980
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	18,809	250,163	268,972
Contributions subsequent to the measurement date	<u>174,527</u>	<u>619,504</u>	<u>794,031</u>
Total deferred outflows of resources	<u>\$ 245,611</u>	<u>\$ 1,897,251</u>	<u>\$ 2,142,862</u>

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ -	\$ 35,414	\$ 35,414
Net difference between projected and actual earnings on pension plan investments	26,461	399,827	426,288
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	<u>15,093</u>	<u>237,187</u>	<u>252,280</u>
Total deferred inflows of resources	<u>\$ 41,554</u>	<u>\$ 672,428</u>	<u>\$ 713,982</u>

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

\$794,031 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, 2021.

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

Fiscal Year Ending June 30:	SERS	STRS	Total
2021	\$ 55,753	\$ 516,164	\$ 571,917
2022	(39,469)	46,082	6,613
2023	(1,760)	(52,419)	(54,179)
2024	15,007	95,489	110,496
2025	(1)	3	2
Total	<u>\$ 29,530</u>	<u>\$ 605,319</u>	<u>\$ 634,849</u>

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2019, are presented below:

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

For 2019, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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

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

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

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.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50%, 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	Current Discount Rate	1% Increase
District's proportionate share of the net pension liability	\$ 2,888,878	\$ 2,061,485	\$ 1,367,613

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2019, actuarial valuation are presented below:

	July 1, 2019
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)	0.00%

For the July 1, 2019, 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, 2019 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

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

Discount Rate - The discount rate used to measure the total pension liability was 7.45% as of June 30, 2019. 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, 2019. 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, 2019.

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	Current Discount Rate	1% Increase
District's proportionate share of the net pension liability	\$ 11,955,182	\$ 8,180,700	\$ 4,985,408

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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.

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/funded 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 - District Employees Retirement System (SERS)

Health Care Plan Description - The GDA 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.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

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 the fiscal year ended June 30, 2020, SERS did not allocate any employer contributions to post-employment health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, prorated if less than a full year of service credit was earned. For fiscal year 2020, this amount was \$19,600. 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 2020, the District's surcharge obligation was \$23,254.

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 \$23,254 for fiscal year 2020. Of this amount, \$23,254 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, 2021. 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, 2020, STRS did not allocate any employer contributions to post-employment health care.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

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, 2019, 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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability/asset prior measurement date	0.03476130%	0.03563042%	
Proportion of the net OPEB liability/asset current measurement date	<u>0.03533790%</u>	<u>0.03699264%</u>	
Change in proportionate share	<u>0.00057660%</u>	<u>0.00136222%</u>	
Proportionate share of the net OPEB liability	\$ 888,674	\$ -	\$ 888,674
Proportionate share of the net OPEB asset	\$ -	\$ (612,687)	\$ (612,687)
OPEB expense	\$ 41,055	\$ (200,529)	\$ (159,474)

At June 30, 2020, 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	\$ 13,045	\$ 55,545	\$ 68,590
Net difference between projected and actual earnings on OPEB plan investments	2,132	-	2,132
Changes of assumptions	64,908	12,879	77,787
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	25,619	7,848	33,467
Contributions subsequent to the measurement date	<u>23,254</u>	<u>-</u>	<u>23,254</u>
Total deferred outflows of resources	<u>\$ 128,958</u>	<u>\$ 76,272</u>	<u>\$ 205,230</u>

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ 195,236	\$ 31,172	\$ 226,408
Net difference between projected and actual earnings on OPEB plan investments	-	38,480	38,480
Changes of assumptions	49,799	671,741	721,540
Difference between employer contributions and proportionate share of contributions/ change in proportionate share	<u>24,644</u>	<u>60,398</u>	<u>85,042</u>
Total deferred inflows of resources	<u>\$ 269,679</u>	<u>\$ 801,791</u>	<u>\$ 1,071,470</u>

\$23,254 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, 2021. 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:			
2021	\$ (42,350)	\$ (159,203)	\$ (201,553)
2022	(29,307)	(159,201)	(188,508)
2023	(28,682)	(143,780)	(172,462)
2024	(28,783)	(138,372)	(167,155)
2025	(24,654)	(128,031)	(152,685)
Thereafter	<u>(10,199)</u>	<u>3,068</u>	<u>(7,131)</u>
Total	<u>\$ (163,975)</u>	<u>\$ (725,519)</u>	<u>\$ (889,494)</u>

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.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2019 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	3.13%
Prior measurement date	3.62%
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.22%
Prior measurement date	3.70%
Medical trend assumption:	
Measurement date	
Medicare	5.25 to 4.75%
Pre-Medicare	7.00 to 4.75%
Prior measurement date	
Medicare	5.375 to 4.75%
Pre-Medicare	7.25 to 4.75%

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

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

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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, 2019 was 3.22%. The discount rate used to measure total OPEB liability prior to June 30, 2019 was 3.70%. 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 1.5% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.00% 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, 2029. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.13%, as of June 30, 2019 (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 3.62% was used as of June 30, 2018. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.22%) and higher (4.22%) than the current discount rate (3.22%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.00% decreasing to 3.75%) and higher (8.00% decreasing to 5.75%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 1,078,682	\$ 888,674	\$ 737,596
	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 712,008	\$ 888,674	\$ 1,123,067

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2019, actuarial valuation, compared with July 1, 2018, are presented below:

	July 1, 2019		July 1, 2018	
	Initial	Ultimate	Initial	Ultimate
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%	
Discounted rate of return	7.45%		7.45%	
Blended discount rate of return	N/A		N/A	
Health care cost trends				
Medical				
Pre-Medicare	5.87%	4.00%	6.00%	4.00%
Medicare	4.93%	4.00%	5.00%	4.00%
Prescription Drug				
Pre-Medicare	7.73%	4.00%	8.00%	4.00%
Medicare	9.62%	4.00%	-5.23%	4.00%

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

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

Actuarial assumptions used in the June 30, 2019 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 - There were no changes in assumptions since the prior measurement date of June 30, 2018.

Benefit Term Changes Since the Prior Measurement Date - There was no change to the claims costs process. Claim curves were trended to the fiscal year ending June 30, 2020 to reflect the current price renewals. The non-Medicare subsidy percentage was increased effective January 1, 2020 from 1.944% to 1.984% per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2020. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1% for the Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed to January 1, 2021.

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

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>	

* Target weights will be phased in over a 24-month period concluding on July 1, 2019.

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

Discount Rate - The discount rate used to measure the total OPEB asset was 7.45% as of June 30, 2019. 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, 2019.

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, 2019, 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	Current Discount Rate	1% Increase
	District's proportionate share of the net OPEB asset	\$ 522,806	\$ 612,687

	1% Decrease	Current Trend Rate	1% Increase
	District's proportionate share of the net OPEB asset	\$ 694,759	\$ 612,687

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (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);
- (d) Investments are reported at fair value (GAAP basis) as opposed to cost (budget basis);
- (e) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (f) 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	\$ 259,435
Net adjustment for revenue accruals	85,748
Net adjustment for expenditure accruals	(76,414)
Net adjustment for other sources/uses	(91,491)
Funds budgeted elsewhere*	4,837
GAAP basis	\$ 182,115

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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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. Foundation Funding

District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, ODE has finalized the impact of enrollment adjustments to the June 30, 2020 Foundation funding and the District was underpaid \$68,135, which is paid through future Foundation payments.

C. Litigation

The District is not involved in material litigation as either plaintiff or defendant at June 30, 2020.

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.

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, 2019	\$ -
Current year set-aside requirement	150,210
Current year offsets	<u>(622,832)</u>
Total	<u>\$ (472,622)</u>
Balance carried forward to fiscal year 2021	<u>\$ -</u>
Set-aside balance June 30, 2020	<u>\$ -</u>

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

NOTE 18 – COVID-19

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the District. The District's investment portfolio and the investments of the pension and other employee benefit plans are subject to increased market volatility, which could result in a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of gains or losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the District's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

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**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND 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 SEVEN FISCAL YEARS
(SEE ACCOUNTANT'S COMPILATION REPORT)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the net pension liability	0.03445470%	0.03414520%	0.03522250%	0.03553300%
District's proportionate share of the net pension liability	\$ 2,061,485	\$ 1,955,559	\$ 2,104,467	\$ 2,600,688
District's covered payroll	\$ 1,294,030	\$ 1,124,674	\$ 1,188,921	\$ 1,167,864
District's proportionate share of the net pension liability as a percentage of its covered payroll	159.31%	173.88%	177.01%	222.69%
Plan fiduciary net position as a percentage of the total pension liability	70.85%	71.36%	69.50%	62.98%

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>2016</u>	<u>2015</u>	<u>2014</u>
0.03358790%	0.03389600%	0.03389600%
\$ 1,916,558	\$ 1,715,457	\$ 2,015,686
\$ 1,011,168	\$ 984,949	\$ 1,027,016
189.54%	174.17%	196.27%
69.16%	71.70%	65.52%

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND 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 SEVEN FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the net pension liability	0.03699264%	0.03563042%	0.03672179%	0.03763765%
District's proportionate share of the net pension liability	\$ 8,180,700	\$ 7,834,329	\$ 8,723,341	\$ 12,598,459
District's covered payroll	\$ 4,321,593	\$ 4,096,350	\$ 4,023,371	\$ 4,001,721
District's proportionate share of the net pension liability as a percentage of its covered payroll	189.30%	191.25%	216.82%	314.83%
Plan fiduciary net position as a percentage of the total pension liability	77.40%	77.31%	75.30%	66.80%

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>2016</u>	<u>2015</u>	<u>2014</u>
0.03656234%	0.03741951%	0.03741951%
\$ 10,104,761	\$ 9,101,722	\$ 10,841,909
\$ 3,861,236	\$ 3,823,246	\$ 4,620,162
261.70%	238.06%	234.67%
72.10%	74.70%	69.30%

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 174,527	\$ 174,694	\$ 151,831	\$ 166,449
Contributions in relation to the contractually required contribution	<u>(174,527)</u>	<u>(174,694)</u>	<u>(151,831)</u>	<u>(166,449)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 1,246,621	\$ 1,294,030	\$ 1,124,674	\$ 1,188,921
Contributions as a percentage of covered payroll	14.00%	13.50%	13.50%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 163,501	\$ 133,272	\$ 136,514	\$ 142,139	\$ 145,802	\$ 131,562
<u>(163,501)</u>	<u>(133,272)</u>	<u>(136,514)</u>	<u>(142,139)</u>	<u>(145,802)</u>	<u>(131,562)</u>
<u>\$ -</u>					
\$ 1,167,864	\$ 1,011,168	\$ 984,949	\$ 1,027,016	\$ 1,084,030	\$ 1,046,635
14.00%	13.18%	13.86%	13.84%	13.45%	12.57%

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 619,504	\$ 605,023	\$ 573,489	\$ 563,272
Contributions in relation to the contractually required contribution	<u>(619,504)</u>	<u>(605,023)</u>	<u>(573,489)</u>	<u>(563,272)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 4,425,029	\$ 4,321,593	\$ 4,096,350	\$ 4,023,371
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 560,241	\$ 540,573	\$ 497,022	\$ 600,621	\$ 634,564	\$ 606,901
<u>(560,241)</u>	<u>(540,573)</u>	<u>(497,022)</u>	<u>(600,621)</u>	<u>(634,564)</u>	<u>(606,901)</u>
<u>\$ -</u>					
\$ 4,001,721	\$ 3,861,236	\$ 3,823,246	\$ 4,620,162	\$ 4,881,262	\$ 4,668,469
14.00%	14.00%	13.00%	13.00%	13.00%	13.00%

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND 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 FOUR FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability	0.03533790%	0.03476130%	0.03564330%	0.03583869%
District's proportionate share of the net OPEB liability	\$ 888,674	\$ 964,372	\$ 956,573	\$ 1,021,535
District's covered payroll	\$ 1,294,030	\$ 1,124,674	\$ 1,188,921	\$ 1,167,864
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	68.67%	85.75%	80.46%	87.47%
Plan fiduciary net position as a percentage of the total OPEB liability	15.57%	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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND 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 FOUR FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability/asset	0.03699264%	0.03563042%	0.03672179%	0.03763765%
District's proportionate share of the net OPEB liability/(asset)	\$ (612,687)	\$ (572,544)	\$ 1,432,749	\$ 2,012,871
District's covered payroll	\$ 4,321,593	\$ 4,096,350	\$ 4,023,371	\$ 4,001,721
District's proportionate share of the net OPEB liability/asset as a percentage of its covered payroll	14.18%	13.98%	35.61%	50.30%
Plan fiduciary net position as a percentage of the total OPEB liability/asset	174.70%	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

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 23,254	\$ 28,173	\$ 24,940	\$ 86,816
Contributions in relation to the contractually required contribution	<u>(23,254)</u>	<u>(28,173)</u>	<u>(24,940)</u>	<u>(86,816)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 1,246,621	\$ 1,294,030	\$ 1,124,674	\$ 1,188,921
Contributions as a percentage of covered payroll	1.87%	2.18%	2.22%	7.30%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 17,405	\$ 23,510	\$ 17,971	\$ 21,020	\$ 24,676	\$ 35,667
<u>(17,405)</u>	<u>(23,510)</u>	<u>(17,971)</u>	<u>(21,020)</u>	<u>(24,676)</u>	<u>(35,667)</u>
<u>\$ -</u>					
\$ 1,167,864	\$ 1,011,168	\$ 984,949	\$ 1,027,016	\$ 1,084,030	\$ 1,046,635
1.49%	2.33%	1.82%	2.05%	2.28%	3.41%

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 4,425,029	\$ 4,321,593	\$ 4,096,350	\$ 4,023,371
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2016	2015	2014	2013	2012	2011
\$ -	\$ -	\$ 40,625	\$ 46,202	\$ 48,813	\$ 46,685
-	-	(40,625)	(46,202)	(48,813)	(46,685)
<u>\$ -</u>					
\$ 4,001,721	\$ 3,861,236	\$ 3,823,246	\$ 4,620,162	\$ 4,881,262	\$ 4,668,469
0.00%	0.00%	1.00%	1.00%	1.00%	1.00%

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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 years 2019-2020.

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 2018-2020.

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 years 2019-2020.

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)

**HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY, OHIO**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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 2017-2020.

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 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 rates 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 (d) the single equivalent interest rate, net of plan investment expense, including price inflation increased from 3.63% to 3.70%. For fiscal year 2020, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) the discount rate decreased from 3.70% to 3.22%, (b) the health care cost trend rates for Medicare were changed from a range of 5.375%-4.75% to a range of 5.25%-4.75% and Pre-Medicare were changed from a range of 7.25%-4.75% to a range of 7.00%-4.75%, (c) the municipal bond index rate decreased from 3.62% to 3.13% and (d) the single equivalent interest rate, net of plan investment expense, including price inflation decreased from 3.70% to 3.22%.

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. For fiscal year 2020, STRS increase the subsidy percentage from 1.944% to 1.984% effective January 1, 2020. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1% for the Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed to January 1, 2021.

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/asset 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 health care cost 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. For fiscal year 2020, health care cost trend rates were changed to the following: medical pre-medicare from 6.00% initial - 4.00% ultimate down to 5.87% initial - 4.00% ultimate; medical medicare from 5.00% initial - 4.00% ultimate down to 4.93% initial - 4.00% ultimate; prescription drug pre-medicare from 8.00% initial - 4.00% ultimate down to 7.73% initial - 4.00% ultimate and (5.23%) initial - 4.00% ultimate up to 9.62% initial - 4.00% ultimate.

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OHIO AUDITOR OF STATE KEITH FABER



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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

Hillsdale Local School District
Ashland County
485 Township Road 1902
Jeromesville, Ohio 44840

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, each major fund, and the aggregate remaining fund information of the Hillsdale Local School District, Ashland County, Ohio (the District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 5, 2021, wherein we noted the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. We also noted the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the District.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider a material weakness and a significant deficiency.

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 a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. We consider finding 2020-001 described in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2020-002 described in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2020-002.

District's Response to Findings

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

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

March 5, 2021

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2020

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

FINDING NUMBER 2020-001

Material Weakness – Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

The District does not have sufficient internal controls in place to help ensure budgeted amounts are properly reported on the financial statements. As a result, the District improperly reported General Fund final budgeted revenues for fiscal year 2020 using amounts from the fiscal year 2021 Amended Certificate of Estimated Resources, and final budgeted revenues were overstated by \$6,663,070. The District has adjusted the financial statements to correct this overstatement.

By not ensuring proper financial statement presentation, the District cannot report accurate financial activity to its constituents.

We recommend the District implement additional procedures to provide assurance over the completeness and accuracy of information recorded in their accounting records and reported within the financial statements. Such procedures may include additional reviews of the financial statements including the notes to the financial statements by a member of management and an analytical comparison of the current year annual report to the prior year annual report for obvious errors or omissions.

Officials' Response:

See Corrective Action Plan.

HILLSDALE LOCAL SCHOOL DISTRICT
ASHLAND COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2020
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2020-002

Material Non-Compliance / Significant Deficiency – Expenditures Exceed Appropriations

Ohio Rev. Code § 5705.41(B) prohibits a subdivision or taxing authority unit from making any expenditure of money unless it has been appropriated in accordance with the Ohio Revised Code.

Ohio Rev. Code § 5705.39 states in part no appropriation measure shall become effective until the county auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official estimate or amended official estimate.

The Board of Education approved supplemental appropriation measures for fiscal year 2020. However, these supplemental appropriations were not submitted to the Ashland County Auditor. Therefore, the Ashland County Auditor could not certify that appropriations did not exceed the official or amended estimate of resources. This was not detected by the District due to deficiencies in the budgetary compliance and monitoring control policies and procedures. As a result, General Fund expenditures exceeded duly authorized appropriations by \$1,136,137 as of June 30, 2020.

The Treasurer should ensure all budgetary documents are filed in a timely manner with the Ashland County Auditor to ensure compliance requirements are met.

Officials' Response:

See Corrective Action Plan.



HILLSDALE SCHOOLS

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144 N. High Street
Jeromesville, Ohio 44840
Ph: 419-368-4911
Fax: 419-368-3613

Hillsdale Elementary School
West Main Street
Hayesville, Ohio 44838
Ph: 419-368-4364
Fax: 419-368-3701

CORRECTIVE ACTION PLAN 2 CFR § 200.511(c) JUNE 30, 2020

Finding Number: 2020-001

Planned Corrective Action: Board Approval will occur in June prior to making year-end adjustments

Anticipated Completion Date: 3/24/2021

Responsible Contact Person: Rick Blahnik, Treasurer

Finding Number: 2020-002

Planned Corrective Action: Transactions/adjustments will not occur until after, Board approved and Appropriations and/or Estimate of resources has been submitted and acknowledged by county Auditor.

Anticipated Completion Date: 03/24/2021

Responsible Contact Person: Rick Blahnik, Treasurer

OHIO AUDITOR OF STATE KEITH FABER



HILLSDALE LOCAL SCHOOL DISTRICT

ASHLAND COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 4/6/2021

88 East Broad Street, Columbus, Ohio 43215
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This report is a matter of public record and is available online at
www.ohioauditor.gov