



OHIO AUDITOR OF STATE
KEITH FABER



**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY
JUNE 30, 2022**

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INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Audit of the Financial Statements

Opinions

We have audited the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the New Knoxville Local School District, Auglaize County, Ohio (the School District), as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective cash-basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2022, and the respective changes in cash-basis financial position and the budgetary comparison for the General fund for the fiscal year then ended in accordance with the cash-basis of accounting described in Note 2.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the School District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter - Accounting Basis

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

Emphasis of Matter

As discussed in Note 19 to the financial statements, the financial impact of COVID-19 and the continuing recovery measures may impact subsequent periods of the School District. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting described in Note 2, and for determining that the cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2023, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

May 5, 2023

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**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2022

| | <u>Governmental Activities</u> |
|--|---|
| Assets: | |
| Equity in pooled cash and cash equivalents | <u><u>\$ 5,799,253</u></u> |
| Net position: | |
| Restricted for: | |
| Capital projects | \$ 384,093 |
| Classroom facilities maintenance | 32,081 |
| Debt service | 953,649 |
| State funded programs | 40,483 |
| Federally funded programs | 3,083 |
| Food service operations | 110,619 |
| Student activities | 147,563 |
| Unrestricted | <u>4,127,682</u> |
| Total net position | <u><u>\$ 5,799,253</u></u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

| | <u>Cash</u> | <u>Program Cash Receipts</u> | | | <u>Net (Disbursements)</u> |
|---|----------------------|------------------------------|--------------------------|--------------------------|-----------------------------|
| | <u>Disbursements</u> | <u>Charges for</u> | <u>Operating Grants</u> | <u>Capital Grants</u> | <u>Receipts and Changes</u> |
| | | <u>Services and Sales</u> | <u>and Contributions</u> | <u>and Contributions</u> | <u>in Net Position</u> |
| | | | | | <u>Governmental</u> |
| | | | | | <u>Activities</u> |
| Governmental activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$ 2,920,050 | \$ 34,096 | \$ 155,985 | \$ - | \$ (2,729,969) |
| Special | 602,895 | - | 243,741 | - | (359,154) |
| Vocational | 7,753 | - | 8,170 | - | 417 |
| Support services: | | | | | |
| Pupil | 200,161 | - | 127,099 | - | (73,062) |
| Instructional staff | 209,656 | - | 3,600 | - | (206,056) |
| Board of education | 13,680 | - | - | - | (13,680) |
| Administration | 466,560 | - | - | - | (466,560) |
| Fiscal | 194,173 | - | - | - | (194,173) |
| Operations and maintenance | 594,645 | 445 | 2,150 | - | (592,050) |
| Pupil transportation | 249,401 | - | 41,637 | 36,859 | (170,905) |
| Central | 4,428 | - | - | - | (4,428) |
| Operation of non-instructional services: | | | | | |
| Food service operations | 186,501 | 35,218 | 201,860 | - | 50,577 |
| Extracurricular activities | 372,715 | 170,191 | 78,342 | - | (124,182) |
| Facilities acquisition and construction | 1,821,638 | - | - | 2,109,901 | 288,263 |
| Debt service: | | | | | |
| Principal retirement | 330,000 | - | - | - | (330,000) |
| Interest and fiscal charges | 44,242 | - | - | - | (44,242) |
| Total governmental activities | <u>\$ 8,218,498</u> | <u>\$ 239,950</u> | <u>\$ 862,584</u> | <u>\$ 2,146,760</u> | <u>(4,969,204)</u> |
| General receipts: | | | | | |
| Property taxes levied for: | | | | | |
| General purposes | | | | | 1,298,391 |
| Debt service | | | | | 386,023 |
| Capital outlay | | | | | 16,667 |
| Classroom facilities maintenance | | | | | 21,778 |
| Income taxes levied for: | | | | | |
| General purposes | | | | | 1,046,135 |
| Grants and entitlements not restricted to specific programs | | | | | 2,543,370 |
| Investment earnings | | | | | 19,536 |
| Miscellaneous | | | | | 12,786 |
| Total general receipts | | | | | <u>5,344,686</u> |
| Change in net position | | | | | 375,482 |
| Net position at beginning of year | | | | | <u>5,423,771</u> |
| Net position at end of year | | | | | <u>\$ 5,799,253</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2022

| | <u>General</u> | <u>Bond Retirement</u> | <u>Barn 2.0 Project</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|----------------------------|-----------------------------|--|---|
| Assets: | | | | | |
| Equity in pooled cash and cash equivalents | \$ 3,852,013 | \$ 953,649 | \$ 540,693 | \$ 452,898 | \$ 5,799,253 |
| Fund balances: | | | | | |
| Restricted: | | | | | |
| Debt service | \$ - | \$ 953,649 | \$ - | \$ - | \$ 953,649 |
| Capital improvements | - | - | 290,693 | 93,400 | 384,093 |
| Classroom facilities maintenance | - | - | - | 32,081 | 32,081 |
| Food service operations | - | - | - | 110,619 | 110,619 |
| State funded programs | - | - | - | 40,483 | 40,483 |
| Federally funded programs | - | - | - | 3,083 | 3,083 |
| Extracurricular | - | - | - | 147,563 | 147,563 |
| Committed: | | | | | |
| Capital improvements | - | - | 250,000 | - | 250,000 |
| Other purposes | - | - | - | 6,887 | 6,887 |
| Assigned: | | | | | |
| Student instruction | 11,762 | - | - | - | 11,762 |
| Student and staff support | 92,966 | - | - | - | 92,966 |
| Educational activities | 28,249 | - | - | - | 28,249 |
| Capital improvements | - | - | - | 19,206 | 19,206 |
| Unassigned (deficit) | 3,719,036 | - | - | (424) | 3,718,612 |
| Total fund balances | <u>\$ 3,852,013</u> | <u>\$ 953,649</u> | <u>\$ 540,693</u> | <u>\$ 452,898</u> | <u>\$ 5,799,253</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

| | <u>General</u> | <u>Bond Retirement</u> | <u>Barn 2.0 Project</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|----------------------------|-----------------------------|--|---|
| Receipts: | | | | | |
| Property taxes | \$ 1,298,391 | \$ 386,023 | \$ - | \$ 38,445 | \$ 1,722,859 |
| Income taxes | 1,046,135 | - | - | - | 1,046,135 |
| Intergovernmental | 2,789,093 | 47,785 | - | 523,947 | 3,360,825 |
| Investment earnings | 19,536 | - | - | 108 | 19,644 |
| Tuition and fees | 33,453 | - | - | - | 33,453 |
| Extracurricular | 10,098 | - | - | 160,736 | 170,834 |
| Rental income | 70 | - | - | - | 70 |
| Charges for services | - | - | - | 35,593 | 35,593 |
| Contributions and donations | 3,908 | - | 2,109,901 | 73,140 | 2,186,949 |
| Miscellaneous | 8,878 | - | - | 8,740 | 17,618 |
| Total receipts | <u>5,209,562</u> | <u>433,808</u> | <u>2,109,901</u> | <u>840,709</u> | <u>8,593,980</u> |
| Disbursements: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 2,765,886 | - | - | 154,164 | 2,920,050 |
| Special | 491,046 | - | - | 111,849 | 602,895 |
| Vocational | 7,753 | - | - | - | 7,753 |
| Support services: | | | | | |
| Pupil | 200,161 | - | - | - | 200,161 |
| Instructional staff | 163,320 | - | - | 46,336 | 209,656 |
| Board of education | 13,680 | - | - | - | 13,680 |
| Administration | 466,560 | - | - | - | 466,560 |
| Fiscal | 185,065 | 8,292 | - | 816 | 194,173 |
| Operations and maintenance | 561,451 | - | - | 33,194 | 594,645 |
| Pupil transportation | 212,542 | - | - | 36,859 | 249,401 |
| Central | 4,428 | - | - | - | 4,428 |
| Operation of non-instructional services: | | | | | |
| Food service operations | - | - | - | 186,501 | 186,501 |
| Extracurricular activities | 163,988 | - | - | 208,727 | 372,715 |
| Facilities acquisition and construction | - | - | 1,819,208 | 2,430 | 1,821,638 |
| Debt service: | | | | | |
| Principal retirement | - | 330,000 | - | - | 330,000 |
| Interest and fiscal charges | - | 44,242 | - | - | 44,242 |
| Total disbursements | <u>5,235,880</u> | <u>382,534</u> | <u>1,819,208</u> | <u>780,876</u> | <u>8,218,498</u> |
| Excess of receipts over (under) disbursements | <u>(26,318)</u> | <u>51,274</u> | <u>290,693</u> | <u>59,833</u> | <u>375,482</u> |
| Other financing sources (uses): | | | | | |
| Transfers in | - | - | 250,000 | - | 250,000 |
| Transfers (out) | - | - | - | (250,000) | (250,000) |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>250,000</u> | <u>(250,000)</u> | <u>-</u> |
| Net change in fund balances | (26,318) | 51,274 | 540,693 | (190,167) | 375,482 |
| Fund balances at beginning of year | <u>3,878,331</u> | <u>902,375</u> | <u>-</u> | <u>643,065</u> | <u>5,423,771</u> |
| Fund balances at end of year | <u>\$ 3,852,013</u> | <u>\$ 953,649</u> | <u>\$ 540,693</u> | <u>\$ 452,898</u> | <u>\$ 5,799,253</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|---|-------------------------|---------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Receipts: | | | | |
| Property taxes | \$ 1,257,914 | \$ 1,257,914 | \$ 1,298,391 | \$ 40,477 |
| Income taxes | 891,726 | 891,726 | 1,046,135 | 154,409 |
| Intergovernmental | 2,779,443 | 2,779,443 | 2,789,093 | 9,650 |
| Investment earnings | 55,386 | 55,386 | 19,536 | (35,850) |
| Tuition and fees | 341,629 | 341,629 | 11,871 | (329,758) |
| Rental income | 608 | 608 | 70 | (538) |
| Contributions and donations | 5,605 | 5,605 | 1,500 | (4,105) |
| Miscellaneous | 22,253 | 22,253 | 3,237 | (19,016) |
| Total receipts | <u>5,354,564</u> | <u>5,354,564</u> | <u>5,169,833</u> | <u>(184,731)</u> |
| Disbursements: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 2,668,177 | 3,065,030 | 2,768,193 | 296,837 |
| Special | 378,741 | 473,267 | 491,046 | (17,779) |
| Vocational | - | 8,168 | 8,009 | 159 |
| Support services: | | | | |
| Pupil | 204,959 | 209,227 | 200,321 | 8,906 |
| Instructional staff | 179,610 | 193,771 | 175,186 | 18,585 |
| Board of education | 12,431 | 12,431 | 13,680 | (1,249) |
| Administration | 423,194 | 436,049 | 466,810 | (30,761) |
| Fiscal | 207,802 | 174,143 | 185,455 | (11,312) |
| Operations and maintenance | 589,228 | 604,749 | 600,405 | 4,344 |
| Pupil transportation | 262,145 | 288,090 | 253,075 | 35,015 |
| Central | 7,094 | 7,094 | 5,241 | 1,853 |
| Extracurricular activities | 139,232 | 140,232 | 151,450 | (11,218) |
| Total disbursements | <u>5,072,613</u> | <u>5,612,251</u> | <u>5,318,871</u> | <u>293,380</u> |
| Excess of receipts over (under) disbursements | <u>281,951</u> | <u>(257,687)</u> | <u>(149,038)</u> | <u>108,649</u> |
| Other financing sources (uses): | | | | |
| Refund of prior year's disbursements | 15,166 | 15,166 | 1,061 | (14,105) |
| Transfers in | 2,424 | 2,424 | - | (2,424) |
| Transfers (out) | - | (33,000) | - | 33,000 |
| Sale of capital assets | 1,759 | 1,759 | 3,900 | 2,141 |
| Total other financing sources (uses) | <u>19,349</u> | <u>(13,651)</u> | <u>4,961</u> | <u>18,612</u> |
| Net change in fund balance | 301,300 | (271,338) | (144,077) | 127,261 |
| Unencumbered fund balance at beginning of year | 3,377,462 | 3,377,462 | 3,377,462 | - |
| Prior year encumbrances appropriated | 375,986 | 375,986 | 375,986 | - |
| Unencumbered fund balance at end of year | <u>\$ 4,054,748</u> | <u>\$ 3,482,110</u> | <u>\$ 3,609,371</u> | <u>\$ 127,261</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The School District serves an area of approximately twenty-seven square miles. It is located in Auglaize and Shelby Counties. It is staffed by 26 classified employees and 35 certified teaching personnel who provide services to 379 students and other community members. The School District currently operates one school building.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

The School District participates in three jointly governed organizations and three insurance pools. These organizations are the Western Ohio Computer Organization, Auglaize County Educational Academy, Southwestern Ohio Educational Purchasing Council, Southwestern Ohio Educational Purchasing Council - Property, Fleet and Liability Insurance Program, Southwestern Ohio Educational Purchasing Council Medical Benefit Plan Trust and the Better Business Bureau of Central Ohio Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 14 and 15 to the basic financial statements.

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

B. Basis of Presentation

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)

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

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

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

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

C. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

Barn 2.0 Project Fund - The barn 2.0 project fund is used to account for donations and disbursements related to the gymnasium building addition.

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)

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

D. Basis of Accounting

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

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

E. Budgetary Process

All funds are legally required to be budgeted and appropriated. The major documents prepared are the alternative tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The alternative tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the first digit object level for the General Fund and the fund level for all other funds. Budgetary allocations within function level within the General Fund and the function and object level for all other funds are made by the Treasurer.

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

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

F. Cash and Investments

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

During fiscal year 2022, investments consisted of negotiable certificates of deposits, commercial paper, STAR Ohio and U.S. Government money market accounts. Investments are reported at cost in accordance with the cash basis of accounting.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)**

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

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

For fiscal year 2022, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, 24 hours advance notice is appreciated for deposits and withdrawals exceeding \$100 million. STAR Ohio reserves the right to limit the transaction to \$250 million, requiring the excess amount to be transacted the following business day(s), but only to the \$250 million limit. All accounts of the participant will be combined for these purposes.

The School District allocates interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2022 was \$19,536, which includes \$6,070 assigned from other School District funds.

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

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

G. Capital Assets

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

H. Compensated Absences

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

I. Leases

For fiscal year 2022, GASB Statement No. 87, Leases was effective. This GASB pronouncement had no effect on beginning net position/fund balance. The School District is the lessee in a lease related to equipment under a noncancelable lease. Lease payables are not reflected under the School District's cash basis of accounting. Lease disbursements are recognized when they are paid.

J. Long-Term Obligations

Cash basis financial statements do not report liabilities for long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset (including the intangible right to use) when entering into a lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure is reported at inception. Lease payments are reported when paid.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)

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

K. Net Position

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

L. Fund Balance

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

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

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

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

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

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

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)

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

M. Interfund Activity

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

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

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

N. Pensions/Other Postemployment Benefits (OPEB)

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2022, the School District has implemented GASB Statement No. 87, "Leases", GASB Implementation Guide 2019-3, "Leases", GASB Statement No. 89, "Accounting for Interest Cost Incurred before the End of a Construction Period", GASB Implementation Guide 2020-1, "Implementation Guide Update - 2020", GASB Statement No. 92, "Omnibus 2020", GASB Statement No. 93, "Replacement of Interbank Offered Rates", GASB Statement No. 97, "Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32" and certain paragraphs of GASB Statement No. 99, "Omnibus 2022".

GASB Statement No. 87 and GASB Implementation Guide 2019-3 enhance the relevance and consistency of information of the government's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right to use leased asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Since the School District does not prepare financial statements using generally accepted accounting principles, the implementation of GASB Statement No. 87 did not have an effect on the financial statements of the School District. Refer to Notes 2I and 12 for disclosures on the School District's lease activity.

GASB Statement No. 89 establishes accounting requirements for interest cost incurred before the end of a construction period. GASB Statement No. 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. GASB Statement No. 89 also reiterates that financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The implementation of GASB Statement No. 89 did not have an effect on the financial statements of the School District.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Implementation Guide 2020-1 provides clarification on issues related to previously established GASB guidance. The implementation of GASB Implementation Guide 2020-1 did not have an effect on the financial statements of the School District.

GASB Statement No. 92 enhances comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The implementation of GASB Statement No. 92 did not have an effect on the financial statements of the School District.

GASB Statement No. 93 establishes accounting and financial reporting requirements related to the replacement of Interbank Offered Rates (IBORs) in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The implementation of GASB Statement No. 93 did not have an effect on the financial statements of the School District.

GASB Statement No. 97 is to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The implementation of GASB Statement No. 97 did not have an effect on the financial statements of the School District.

GASB Statement No. 99 is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The implementation of GASB Statement No. 99 did not have an effect on the financial statements of the School District.

B. Compliance

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

C. Deficit Fund Balances

Fund balances at June 30, 2022 included the following individual fund deficit:

| <u>Nonmajor fund</u> | <u>Deficit</u> |
|--|----------------|
| Elementary and secondary school emergency fund | \$ 424 |

The general fund is liable for any deficit in this fund and provides transfers when cash is required.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury bills, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
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 deposits or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool, the State Treasury Asset Reserve of Ohio (STAR Ohio);
8. Certain bankers' acceptances for a period (not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed forty percent of the interim monies available for investment at any one time if training requirements have been met.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

A. Cash on Hand

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

B. Deposits with Financial Institutions

At June 30, 2022, the carrying amount of all School District deposits was \$3,610,049. Based on the criteria described in GASB Statement No. 40, “*Deposits and Investment Risk Disclosures*”, as of June 30, 2022, \$3,141,790 of the School District’s bank balance of \$3,641,790 was covered by the OPCS as discussed below, while \$500,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the School District and deposited with a qualified trustee by the financial institution as security for repayment whose fair value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the OPCS, a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total fair value of the securities pledged to be 102 percent of the deposits being secured or a reduced rate set by the Treasurer of State. For fiscal year 2022, the School District’s financial institutions were collateralized at a 102 percent rate through the OPCS.

C. Investments

As of June 30, 2022, the School District had the following investments and maturities:

| Investment Type | Carrying Value | Investment Maturities | | | |
|------------------------------|---------------------|-----------------------|-------------------|-------------------|------------------------|
| | | 6 Months or Less | 7 to 12 Months | 13 to 18 Months | Greater than 24 Months |
| Negotiable CD's | \$ 725,754 | \$ - | \$ - | \$ 480,000 | \$ 245,754 |
| Commerical paper | 540,578 | 398,210 | 142,368 | - | - |
| STAR Ohio | 872,916 | 872,916 | - | - | - |
| U.S. Government money market | 49,856 | 49,856 | - | - | - |
| Total | \$ 2,189,104 | \$ 1,320,982 | \$ 142,368 | \$ 480,000 | \$ 245,754 |

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

The weighted average maturity of investments is 0.62 years.

Interest Rate Risk: Interest rate risk arises because potential purchases of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the School District’s investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The School District’s investments in the U.S. Government money market was not rated. The negotiable certificates of deposit are fully covered by FDIC and are not rated. The commercial paper carry a rating of P-1 by Moody’s and A-1+ from Standard and Poor’s. STAR Ohio carries a rating of AAAm by Standard and Poor’s. The School District has no policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that mutual funds in eligible securities must be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The School District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the School District at June 30, 2022:

| <u>Investment Type</u> | <u>Carrying Value</u> | <u>% of Total</u> |
|------------------------------|-----------------------|-------------------|
| Negotiable CD's | \$ 725,754 | 33.15 |
| Commerical paper | 540,578 | 24.69 |
| STAR Ohio | 872,916 | 39.88 |
| U.S. Government money market | 49,856 | 2.28 |
| Total | <u>\$ 2,189,104</u> | <u>100.00</u> |

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

The following is a reconciliation of cash and investments as reported in the note above to cash and cash equivalents as reported on the statement of net position as of June 30, 2022:

| | |
|---|---------------------|
| <u>Cash and investments per note:</u> | |
| Carrying amount of deposits | \$ 3,610,049 |
| Investments | 2,189,104 |
| Cash on hand | <u>100</u> |
| Total | <u>\$ 5,799,253</u> |
| <u>Cash and cash equivalents per statement of net position:</u> | |
| Governmental activities | <u>\$ 5,799,253</u> |

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)

NOTE 5 - PROPERTY TAXES

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenues received in calendar year 2022 represent the collection of calendar year 2021 taxes. Real property taxes received in calendar year 2022 were levied after April 1, 2021, on the assessed values as of January 1, 2022, 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 2022 represent the collection of calendar year 2021 taxes. Public utility real and tangible personal property taxes received in calendar year 2022 became a lien on December 31, 2020, were levied after April 1, 2021, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The School District receives property taxes from Auglaize and Shelby Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2022, are available to finance fiscal year 2022 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2022 taxes were collected are:

| | 2021 Second Half Collections | | 2022 First Half Collections | |
|---|---------------------------------|----------------|--------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/residential and other real estate | \$ 63,581,940 | 98.07 | \$ 64,067,320 | 97.96 |
| Public utility personal | <u>1,253,360</u> | <u>1.93</u> | <u>1,335,180</u> | <u>2.04</u> |
| Total | <u>\$ 64,835,300</u> | <u>100.00</u> | <u>\$ 65,402,500</u> | <u>100.00</u> |
| Tax rate per \$1,000 of assessed valuation | \$54.65 | | \$54.65 | |

NOTE 6 - INCOME TAXES

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)

NOTE 7 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2022, the School District contracted with the Southwest Ohio Education Purchasing Council for the following insurance coverage.

| | |
|-----------------------------|----------------|
| Buildings and Contents | \$ 350,000,000 |
| Flood | 10,000,000 |
| Earthquake | 25,000,000 |
| General Liability Aggregate | 3,000,000 |
| Automobile | 1,000,000 |

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

For fiscal year 2022, the School District participated in the Southwest Ohio Education Purchasing Council Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

The School District participated in the Southwestern Ohio Educational Purchasing Council Benefit Plan Trust (the "EPC"). The School District pays monthly premiums to the EPC for employee medical and prescription insurance benefits. The EPC is responsible for the management and operations of the program. Upon withdrawal from the EPC, a participant is responsible for the payment of all EPC liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

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

NOTE 8 - DEFINED BENEFIT PENSION PLANS

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

Net Pension Liability/Net OPEB Liability/Asset

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

The net pension/OPEB liability (asset) represent the School District's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability (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.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients.

The net pension/net OPEB liability (asset) are not reported on the face of the financial statements, but rather are disclosed in the notes because of the use of the cash basis framework.

The remainder of this note includes the required pension disclosures. See Note 9 for the required OPEB disclosures.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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(CONTINUED)

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

An individual whose benefit effective date is before April 1, 2018, is eligible for a cost-of-living adjustment (COLA) on the first anniversary date of the benefit. New benefit recipients must wait until the fourth anniversary of their benefit for COLA eligibility. The COLA is added each year to the base benefit amount on the anniversary date of the benefit. A three-year COLA suspension was in effect for all benefit recipients for the years 2018, 2019, and 2020. Upon resumption of the COLA, it will be indexed to the percentage increase in the CPI-W, not to exceed 2.5% and with a floor of 0%. In 2021, the Board of Trustees approved a 2.5% cost-of-living adjustment (COLA) for eligible retirees and beneficiaries in 2022.

Funding Policy – Plan members are required to contribute 10.00% of their annual covered salary and the School District is required to contribute 14.00% 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 10.00% for plan members and 14.00% 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, 2022, the allocation to pension, death benefits, and Medicare B was 14.00%. For fiscal year 2022, the Retirement Board did not allocate any employer contribution to the Health Care Fund.

The School District's contractually required contribution to SERS was \$102,421 for fiscal year 2022.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans: a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined (CO) Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.20% of final average salary for the five highest years of earnings multiplied by all years of service. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0% to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of living increases are not affected by this change. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five year of service credit and age 65, or 35 years of service credit and at least age 60.

Eligibility changes for DB Plan members who retire with actuarially reduced benefits will be phased in until August 1, 2026, when retirement eligibility will be five years of qualifying service credit and age 60, or 30 years of service credit at any age.

The DC Plan allows members to place all of 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.

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(CONTINUED)

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 and after termination of employment.

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. New members, on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. Eligible survivors of members who die before service retirement may qualify for monthly benefits. 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. The fiscal year 2022 employer and employee contribution rate of 14% was equal to the statutory maximum rates. For fiscal year 2022, the full employer contribution was allocated to pension.

The School District's contractually required contribution to STRS was \$363,400 for fiscal year 2022.

Net Pension Liability

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the projected contributions of all participating entities.

Following is information related to the proportionate share:

| | SERS | STRS | Total |
|--|--------------------|---------------------|--------------|
| Proportion of the net pension liability prior measurement date | 0.01800760% | 0.01880642% | |
| Proportion of the net pension liability current measurement date | <u>0.01814610%</u> | <u>0.019209043%</u> | |
| Change in proportionate share | <u>0.00013850%</u> | <u>0.000402623%</u> | |
| Proportionate share of the net pension liability | \$ 669,538 | \$ 2,456,049 | \$ 3,125,587 |

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2021, compared with June 30, 2020, are presented below:

| | |
|---|--|
| Wage inflation: | |
| Current measurement date | 2.40% |
| Prior measurement date | 3.00% |
| Future salary increases, including inflation: | |
| Current measurement date | 3.25% to 13.58% |
| Prior measurement date | 3.50% to 18.20% |
| COLA or ad hoc COLA: | |
| Current measurement date | 2.00% |
| Prior measurement date | 2.50% |
| Investment rate of return: | |
| Current measurement date | 7.00% net of system expenses |
| Prior measurement date | 7.50% net of investment expense, including inflation |
| Discount rate: | |
| Current measurement date | 7.00% |
| Prior measurement date | 7.50% |
| Actuarial cost method | Entry age normal (level percent of payroll) |

In 2021, Mortality rates were based on the PUB-2010 General Employee Amount Weight Below Median Healthy Retiree mortality table projected to 2017 with ages set forward 1 year and adjusted 94.20% for males and set forward 2 years and adjusted 81.35% for females. Mortality among disabled members were based upon the PUB-2010 General Disabled Retiree mortality table projected to 2017 with ages set forward 5 years and adjusted 103.3% for males and set forward 3 years and adjusted 106.8% for females. Future improvement in mortality rates is reflected by applying the MP-2020 projection scale generationally.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

In the prior measurement date, 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, 2020.

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 asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-----------------------------|------------------------------|---|
| Cash | 2.00 % | (0.33) % |
| US Equity | 24.75 | 5.72 |
| Non-US Equity Developed | 13.50 | 6.55 |
| Non-US Equity Emerging | 6.75 | 8.54 |
| Fixed Income/Global Bonds | 19.00 | 1.14 |
| Private Equity | 11.00 | 10.03 |
| Real Estate/Real Assets | 16.00 | 5.41 |
| Multi-Asset Strategy | 4.00 | 3.47 |
| Private Debt/Private Credit | 3.00 | 5.28 |
| Total | <u>100.00 %</u> | |

Discount Rate - The total pension liability was calculated using the discount rate of 7.00%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.00%). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.00%, 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 (6.00%), or one percentage point higher (8.00%) than the current rate.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

| | 1% Decrease | Current Discount Rate | 1% Increase |
|--|--------------|--------------------------|-------------|
| School District's proportionate share of the net pension liability | \$ 1,113,948 | \$ 669,538 | \$ 294,749 |

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2021, compared to those used in the June 30, 2020, actuarial valuation are presented below:

| | June 30, 2021 | June 30, 2020 |
|--------------------------------------|---|---|
| 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 | 7.00%, net of investment expenses, including inflation | 7.45%, net of investment expenses, including inflation |
| Discount rate of return | 7.00% | 7.45% |
| Payroll increases | 3.00% | 3.00% |
| Cost-of-living adjustments (COLA) | 0.00% | 0.00% |

For the June 30, 2021, actuarial valuation, post-retirement mortality rates are based on the RP-2014 Annuitant Mortality Tables 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. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Tables, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Tables 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, 2021 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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

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

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(CONTINUED)

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

*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 7.00% as of June 30, 2021. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with the rates described previously. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS Ohio's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2021. Therefore, the long-term expected rate of return on pension plan investments of 7.00% was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2021.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table represents the net pension liability as of June 30, 2021, calculated using the current period discount rate assumption of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current assumption:

| | 1% Decrease | Current Discount Rate | 1% Increase |
|---|--------------|--------------------------|-------------|
| School District's proportionate share of the net pension liability | \$ 4,599,260 | \$ 2,456,049 | \$ 645,040 |

Changes Between Measurement Date and Reporting Date – In February 2022, the Board approved changes to demographic measures that will impact the June 30, 2022, actuarial valuation. These demographic measures include retirement, salary increase, disability/termination and mortality assumptions. In March 2022, the STRS Board approved benefit plan changes to take effect on July 1, 2022. These changes include a one-time three percent cost-of-living increase (COLA) to be paid to eligible benefit recipients and the elimination of the age 60 requirement for retirement age and service eligibility that was set to take effect in 2026. The effect on the net position liability is unknown.

NOTE 9 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability/Asset

See Note 8 for a description of the net OPEB liability (asset).

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. The following types of credit purchased after January 29, 1981, do not count toward health care coverage eligibility: military, federal, out-of-state, municipal, private school, exempted, and early retirement incentive credit. 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 Annual Comprehensive Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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(CONTINUED)

NOTE 9 - 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, 2022, 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, pro-rated if less than a full year of service credit was earned. For fiscal year 2022, this amount was \$25,000. 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 2022, the School District's surcharge obligation was \$12,252.

The surcharge added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$12,252 for fiscal year 2022.

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. The Medicare Part B monthly reimbursement elimination date was postponed indefinitely. 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, 2022, STRS did not allocate any employer contributions to post-employment health care.

Net OPEB Liability/Asset

The net OPEB liability/asset was measured as of June 30, 2021, 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 School District's proportion of the net OPEB liability/asset was based on the School District's share of contributions to the respective retirement systems relative to the contributions of all participating entities.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)

Following is information related to the proportionate share:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|---|--------------------|---------------------|--------------|
| Proportion of the net OPEB liability/asset prior measurement date | 0.01871300% | 0.01880642% | |
| Proportion of the net OPEB liability/asset current measurement date | <u>0.01875510%</u> | <u>0.019209043%</u> | |
| Change in proportionate share | <u>0.00004210%</u> | <u>0.000402623%</u> | |
| Proportionate share of the net OPEB liability | \$ 354,956 | \$ - | \$ 354,956 |
| Proportionate share of the net OPEB asset | \$ - | \$ (405,007) | \$ (405,007) |

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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 9 - 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, 2021, compared with June 30, 2020, are presented below:

| | |
|--|---|
| Wage inflation: | |
| Current measurement date | 2.40% |
| Prior measurement date | 3.00% |
| Future salary increases, including inflation: | |
| Current measurement date | 3.25% to 13.58% |
| Prior measurement date | 3.50% to 18.20% |
| Investment rate of return: | |
| Current measurement date | 7.00% net of investment expense, including inflation |
| Prior measurement date | 7.50% net of investment expense, including inflation |
| Municipal bond index rate: | |
| Current measurement date | 1.92% |
| Prior measurement date | 2.45% |
| Single equivalent interest rate, net of plan investment expense, including price inflation: | |
| Current measurement date | 2.27% |
| Prior measurement date | 2.63% |
| Medical trend assumption: | |
| Current measurement date | |
| Medicare | 5.125 to 4.400% |
| Pre-Medicare | 6.750 to 4.400% |
| Prior measurement date | |
| Medicare | 5.25 to 4.75% |
| Pre-Medicare | 7.00 to 4.75% |

In 2021, Mortality rates were based on the PUB-2010 General Employee Amount Weight Below Median Healthy Retiree mortality table projected to 2017 with ages set forward 1 year and adjusted 94.20% for males and set forward 2 years and adjusted 81.35% for females. Mortality among disabled members were based upon the PUB-2010 General Disabled Retiree mortality table projected to 2017 with ages set forward 5 years and adjusted 103.3% for males and set forward 3 years and adjusted 106.8% for females. Future improvement in mortality rates is reflected by applying the MP-2020 projection scale generationally.

In the prior measurement date, 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, 2020.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2015 through 2020 and was adopted by the Board in 2021. 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, 7.00%, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2020 five-year experience study, are summarized as follows:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|-----------------------------|----------------------|---|
| Cash | 2.00 % | (0.33) % |
| US Equity | 24.75 | 5.72 |
| Non-US Equity Developed | 13.50 | 6.55 |
| Non-US Equity Emerging | 6.75 | 8.54 |
| Fixed Income/Global Bonds | 19.00 | 1.14 |
| Private Equity | 11.00 | 10.03 |
| Real Estate/Real Assets | 16.00 | 5.41 |
| Multi-Asset Strategy | 4.00 | 3.47 |
| Private Debt/Private Credit | 3.00 | 5.28 |
| Total | <u>100.00 %</u> | |

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2021 was 2.27%. The discount rate used to measure total OPEB liability prior to June 30, 2021 was 2.63%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the contribution rate of 1.50% of projected covered payroll each year, which includes a 1.50% payroll surcharge and no contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make all projected future benefit payments of current System members by SERS actuaries. The Municipal Bond Index Rate is used in the determination of the SEIR for both the June 30, 2020 and the June 30, 2021 total OPEB liability. The Municipal Bond Index rate is the single rate that will generate a present value of benefit payments equal to the sum of the present value determined by the long-term expected rate of return, and the present value determined by discounting those benefits after the date of depletion. The Municipal Bond Index Rate is 1.92% at June 30, 2021 and 2.45% at June 30, 2020.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.27%) and higher (3.27%) than the current discount rate (2.27%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (5.75% decreasing to 3.40%) and higher (7.75% decreasing to 5.40%) than the current rate (6.75% decreasing to 4.40%).

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)

NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)

| | 1% Decrease | Current Discount Rate | 1% Increase |
|---|-------------|--------------------------|-------------|
| School District's proportionate share of the net OPEB liability | \$ 439,833 | \$ 354,956 | \$ 287,150 |
| | | Current | |
| | 1% Decrease | Trend Rate | 1% Increase |
| School District's proportionate share of the net OPEB liability | \$ 273,287 | \$ 354,956 | \$ 464,040 |

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2021, actuarial valuation, compared with June 30, 2020, are presented below:

| | June 30, 2021 | | June 30, 2020 | |
|--------------------------------------|---|----------|---|----------|
| 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 | 7.00%, 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% | |
| Discount rate of return | 7.00% | | 7.45% | |
| Blended discount rate of return | N/A | | N/A | |
| Health care cost trends | | | | |
| | Initial | Ultimate | Initial | Ultimate |
| Medical | | | | |
| Pre-Medicare | 5.00% | 4.00% | 5.00% | 4.00% |
| Medicare | -16.18% | 4.00% | -6.69% | 4.00% |
| Prescription Drug | | | | |
| Pre-Medicare | 6.50% | 4.00% | 6.50% | 4.00% |
| Medicare | 29.98% | 4.00% | 11.87% | 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 Tables 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 Tables 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, 2021 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)

NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)

Assumption Changes Since the Prior Measurement Date - The discount rate was adjusted to 7.00% from 7.45% for the June 30, 2021 valuation.

Benefit Term Changes Since the Prior Measurement Date - The non-Medicare subsidy percentage was increased effective January 1, 2022 from 2.055% to 2.100%. The non-Medicare frozen subsidy base premium was increased effective January 1, 2022. The Medicare Part D subsidy was updated to reflect it is expected to be negative in CY2022. The Part B monthly reimbursement elimination date was postponed indefinitely.

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

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

*10-Year annualized 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 7.00% as of June 30, 2021. The projection of cash flows used to determine the discount rate assumed 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 as of June 30, 2021. Therefore, the long-term expected rate of return on health care fund investments of 7.00% was applied to all periods of projected health care costs to determine the total OPEB liability as of June 30, 2021.

Sensitivity of the School 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, 2021, calculated using the current period discount rate assumption of 7.00%, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) 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.

| | Current | | |
|---|--------------------|----------------------|--------------------|
| | <u>1% Decrease</u> | <u>Discount Rate</u> | <u>1% Increase</u> |
| School District's proportionate share of the net OPEB asset | \$ 341,763 | \$ 405,007 | \$ 457,838 |
| | Current | | |
| | <u>1% Decrease</u> | <u>Trend Rate</u> | <u>1% Increase</u> |
| School District's proportionate share of the net OPEB asset | \$ 455,697 | \$ 405,007 | \$ 342,324 |

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)

NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)

Changes Between Measurement Date and Reporting Date – In February 2022, the Board approved changes to demographic measures that will impact the June 30, 2022, actuarial valuation. The effect on the net OPEB liability is unknown.

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Health Care Benefits

The School District offers medical, drug, and dental insurance to most employees through the Southwestern Ohio Educational Purchasing Council Benefit Plan Trust. In addition, the School District offers life insurance through American United Life Insurance Company.

NOTE 11 - INTERFUND TRANSACTIONS

Interfund transfers for the fiscal year 2022 consisted of the following, as reported on the fund statements:

| <u>Transfers from nonmajor governmental fund to:</u> | <u>Amount</u> |
|--|-------------------|
| Barn 2.0 project fund | <u>\$ 250,000</u> |

Transfers are used to move receipts from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The \$250,000 transfer was made from the Schrolucke capital improvement nonmajor capital projects fund to the Barn 2.0 project fund. Interfund transfers between governmental funds are eliminated on the government-wide financials statements.

NOTE 12 - DEBT

The long-term debt obligations have been restated at the beginning of year to remove the capital lease obligation reported at June 30, 2021, due to the implementation of GASB Statement No. 87.

During the fiscal year ended June 30, 2022, the following changes occurred in the School District's debt obligation:

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)

NOTE 12 - DEBT - (Continued)

| | Restated Balance 6/30/21 | Additions | Reductions | Balance 6/30/22 | Due Within One Year |
|--|--------------------------------|-------------|---------------------|---------------------|------------------------|
| General Obligation Bonds | | | | | |
| 2007 High School Refunding Term Bonds 4-4.125% | \$ 595,000 | \$ - | \$ (145,000) | \$ 450,000 | \$ 155,000 |
| 2016 School Improvement Refunding Serial Bonds 3.42% - direct placement | <u>775,000</u> | <u>-</u> | <u>(185,000)</u> | <u>590,000</u> | <u>190,000</u> |
| Total General Long-Term Obligations | <u>\$ 1,370,000</u> | <u>\$ -</u> | <u>\$ (330,000)</u> | <u>\$ 1,040,000</u> | <u>\$ 345,000</u> |

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

The term bonds maturing on December 1, 2022, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District, in the amount of \$155,000.

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

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2023 | \$ 155,000 |

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

The capital appreciation bonds matured in fiscal year 2018 and the serial bonds matured in fiscal year 2021.

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

The School District's overall debt margin was \$5,636,322 with an un-voted debt margin of \$65,403 at June 30, 2022.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)

NOTE 12 - DEBT - (Continued)

Principal and interest requirements to retire the general long-term obligations outstanding at June 30, 2022 were as follows:

| Fiscal Year Ending June 30, | General Obligation Bonds | | |
|--------------------------------|--------------------------|------------------|---------------------|
| | Serial & Term | | |
| | Principal | Interest | Total |
| 2023 | \$ 345,000 | \$ 31,829 | \$ 376,829 |
| 2024 | 355,000 | 18,946 | 373,946 |
| 2025 | 340,000 | 6,206 | 346,206 |
| Total | <u>\$ 1,040,000</u> | <u>\$ 56,981</u> | <u>\$ 1,096,981</u> |

NOTE 13 - SET ASIDES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end. This amount must be carried forward and used for the same purpose in future years. The following cash basis information identifies the change in the fund balance for capital improvements during fiscal year 2022.

| | Capital Improvements |
|------------------------------------|-------------------------|
| Balance June 30, 2021 | \$ - |
| Current Year Set Aside Requirement | 65,047 |
| Current Year Offsets | <u>(228,769)</u> |
| Balance June 30, 2022 | <u>\$ (163,722)</u> |

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

A. Western Ohio Computer Organization

The School District is a participant in the Western Ohio Computer Organization (WOCO). WOCO is a council of government consisting of an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami, and Shelby counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus a representative from the fiscal agent school district. During fiscal year 2022, the School District paid \$46,019 to WOCO for various services. Financial information can be obtained from the Western Ohio Computer Organization, 129 East Court Street, Sidney, Ohio 45365.

B. Auglaize County Educational Academy

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)**

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS - (Continued)

C. Southwestern Ohio Educational Purchasing Council

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

During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2022, the School District paid \$681,429 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

NOTE 15 - INSURANCE POOLS

A. Southwestern Ohio Educational Purchasing Council - Property, Fleet and Liability Insurance Program

Southwestern Ohio Educational Purchasing Council Property, Fleet and Liability Insurance Program – The School District participates in the Southwestern Ohio Educational Purchasing Council Property, Fleet and Liability Insurance Program (PFL). The PFL's business affairs are conducted by a six member committee consisting of various PFL representatives that are elected by the general assembly. The purpose of the program is to jointly provide or obtain casualty, property, employer liability, general liability, risk management, professional liability, group coverage and other protections for participating school districts. During fiscal year 2022, the School District paid \$681,429 for insurance coverage. Financial information can be obtained from Ken Swink, Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

B. Southwestern Ohio Educational Purchasing Council Medical Benefit Plan Trust

The School District participates in the Southwestern Ohio Educational Purchasing Council Benefit Plan Trust (EPC). The EPC is a public entity shared risk pool consisting of 55 school districts. The EPC is organized as a Voluntary Employee Benefit Association under Section 501C(9) of the Internal Revenue Code and provides medical, dental, and vision insurance benefits to the employees of the participants. The EPC is governed by the Southwestern Ohio Educational Purchasing Cooperative and its participating members. Each participant decides which plan offered by the EPC will be extended to its employees. Participation in the EPC is by written application subject to acceptance by the EPC and payment of the monthly premiums. Financial information may be obtained from the Southwestern Ohio Educational Purchasing Council, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

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

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Better Business Bureau of Central Ohio Workers' Compensation Group Rating Plan (Plan) was established through the Better Business Bureau of Ohio as an insurance purchasing pool. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program. Financial information can be obtained from 1169 Dublin Rd., Columbus, Ohio 43215.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)

NOTE 16 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2022.

B. Litigation

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

C. Foundation Funding

Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Traditional districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, 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, 2022, foundation for the School District. As a result of the adjustments, the School District owes \$1,425 to ODE. This amount has not been included in the financial statements.

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balances on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The statement of receipts, disbursements and changes in fund balance - budget and actual (budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as disbursements (budget) rather than a reservation of fund balance (cash).

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

| | <u>General fund</u> |
|-----------------------------|---------------------|
| Budgetary basis | \$ (144,077) |
| Funds budgeted elsewhere ** | 13,031 |
| Adjustment for encumbrances | <u>104,728</u> |
| Cash basis | <u>\$ (26,318)</u> |

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022
(CONTINUED)**

NOTE 18 - TAX ABATEMENTS ENTERED INTO BY OTHER GOVERNMENTS

Community Reinvestment Areas

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

The CRA agreements entered into by the Village of New Knoxville affect the property tax receipts collected and distributed to the School District. Under these agreements, the School District's property taxes were reduced by \$53,372 during fiscal year 2022.

NOTE 19 - COVID-19

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. Ohio's state of emergency ended in June, 2021 while the national state of emergency continues. During fiscal year 2022, the School District received COVID-19 funding. The financial impact of COVID-19 and the continuing recovery measures may impact subsequent periods of the School District. The impact on the School District's future operating costs, revenues, and additional recovery from emergency funding, either federal or state, cannot be estimated.

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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

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

To the Board of Education:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the New Knoxville Local School District, Auglaize County, (the School District) as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated May 5, 2023, wherein we noted the School District uses a special purpose framework other than generally accepted accounting principles. We also noted the financial impact of COVID-19 and the continuing recovery measures may impact subsequent periods of the School District.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the

accompanying schedule of findings as items 2022-002 and 2022-003 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2022-001 and 2022-002.

School District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the School District's responses to the findings identified in our audit and described in the accompanying schedule of findings. The School District's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

May 5, 2023

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2022**

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

FINDING NUMBER 2022-001

Noncompliance – Failure to File GAAP

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

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

The School District prepared financial statements that, although formatted similar to financial statements prescribed by the Governmental Accounting Standards Board, report on the cash basis of accounting rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumed material, cannot be determined at this time.

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

Officials' Response:

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

FINDING NUMBER 2022-002

Noncompliance and Material Weakness – Recording in Incorrect Fund/Financial Reporting

Ohio Rev. Code § 5705.10(D) provides in part that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose.

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.

Due to lack of controls over posting transactions to the accounting system and/or financial statements, the following misstatements were identified and adjusted on the School District's financial statements and accounting system:

- \$163,552 of Fund 002 Bond Retirement fund property taxes receipts were incorrectly posted to Fund 005 Replacement fund.

FINDING NUMBER 2022-002
(Continued)

- \$21,778 was required to be deposited into Fund 034 Classroom Facilities Maintenance fund for the half mil equalization payment during fiscal year 2022. The School District only posted \$10,959 into the Fund. The remaining \$10,819 was adjusted from Fund 005 Replacement fund to Fund 034 Classroom Facilities Maintenance fund.
- A bus grant expenditure in the amount of \$36,859 was paid from Fund 001 General fund and it should have been paid from Fund 499 Miscellaneous State Grants fund. In addition, the revenue for this grant was posted to Fund 005 Replacement fund. Adjustments were made to accurately reflect the activity in Fund 499.
- Capital grants and contributions program revenues, in the amount of \$2,109,901 were incorrectly classified as extracurricular rather than facilities acquisition and construction.

In addition, the School District received grant money from Special Education Preschool Grants and Student Support and Academic Enrichment whose activity should have been posted to Fund 587 and Fund 584, respectively. These funds were not established by the District.

Finally, we also identified misstatements ranging from \$3,708 to \$185,330 which we have brought to management's attention.

The failure to correctly classify financial activity in the accounting records and financial statements may impact the user's understanding of the financial operations, the School District's ability to make sound financial decisions or comply with budgetary law, and/or result in materially misstated reports.

The School District should have procedures in place to provide for accurate and complete recording of financial activity in the accounting records and financial statements, to assist in the effective management and reporting of financial resources.

Officials' Response:

The treasurer will continue to educate on the USAS accounting manual to avoid future misstatements.

FINDING NUMBER 2022-003

Material Weakness – Cash Reconciliation Process Errors

Sound accounting practices require that when designing the public office's system of internal control and the specific control activities, management should ensure adequate security of assets and records, and verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

The reconciliation of cash (bank) balances to accounting system records (book) to the accounting system is the most basic and primary control process performed. Lack of completing an accurate and timely reconciliation may allow for accounting errors, theft and fraud to occur without timely detection.

The Treasurer is responsible for reconciling the book (fund) balance to the total bank balance on a monthly basis, and the Board of Education are responsible for reviewing the reconciliations and related support.

**FINDING NUMBER 2022-003
(Continued)**

While the Treasurer prepared monthly bank to book reconciliations during Fiscal Year 2022, not all reconciliations were prepared in time to be reviewed by the Board. Furthermore, the School District did not properly identify the source of the Miscellaneous Adjustments (\$4,827) on the fiscal year end bank reconciliation. Failure to reconcile monthly increases the possibility the School District will not be able to identify, assemble, analyze, classify, and record its transactions correctly or to document compliance with finance related legal and contractual requirements. Further, the lack of accurate monthly reconciliations increases the risk of theft/fraud over the cash cycle and could lead to inaccurate reporting in the annual financial statements.

The Treasurer should record all transactions and prepare monthly bank to book cash reconciliations, which include all bank accounts and all fund balances. Variances should be investigated, documented, and corrected. In addition, the Board should review the monthly cash reconciliations including the related support (such as reconciling items) and document the reviews.

Officials' Response:

The district worked with Julian & Grube throughout FY22 and beyond to identify and reconcile differences. This will continue through FY23 and beyond.

OTHER – FINDINGS FOR RECOVERY

In addition, we identified the following other issue related to a Finding for Recovery – Resolved Under Audit. This issue did not impact our GAGAS Compliance and Controls report.

FINDING NUMBER 2022-004

Finding for Recovery – Resolved Under Audit

Ohio Rev. Code § 3307.26(A)(5) requires each teacher to contribute fourteen per cent of the teacher's earned compensation.

Ohio Rev. Code § 3307.26(C) states the contribution for all teachers shall be deducted by the employer on each payroll in an amount equal to the applicable per cent of the teachers' paid compensation for such payroll period or other period as the board may approve. All contributions on paid compensation for teachers shall be remitted at intervals required by the state teacher's retirement system (STRS).

On September 15, 2022, the School District discovered that the employee portion of the STRS contribution was not properly withheld and remitted for their employee, Emily Poepelman, for the period November 2021 through September 2022. Due to the lack of withholding/remitting by the School District, Ms. Poepelman's STRS withholdings and remittance of employee contributions to STRS were understated by \$4,767.20, which resulted in Ms. Poepelman being overpaid by the corresponding amount. The School District Treasurer, Andy Meckstroth, then worked with STRS to file the appropriate paperwork for this error and to pay the contribution that was not withheld and remitted which totaled \$4,767.20. The School District paid this amount in full to STRS on September 20, 2022, with voucher number V193149.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued, jointly and severally, in the amount of \$4,767 against Emily Poepelman and Treasurer Andy Meckstroth and his bonding company, the Cincinnati Insurance Company, and in favor of the School District's General Fund.

**FINDING NUMBER 2022-004
(Continued)**

On September 20, 2022, an agreement was entered into between New Knoxville Local School District Board of Education and Emily Poeppelman for repayment of the employee contribution owed to the School District via payroll deductions (19 equal payments of \$250.91). As of April 12, 2023, 14 of 19 payments (\$3,513) have been made and a signed agreement is in place for the remaining amount/payments. As a result, the finding is considered resolved under audit.

The School District should establish and implement procedures to review contribution rates to verify proper contributions are withheld and remitted. Failure to withhold and remit the appropriate withholdings could result in the loss of service credit for employees and could lead to the assessment of penalties and late fees against the School District.

This matter will be referred to the State Teachers Retirement System.

Officials' Response:

Procedures have been implemented by the treasurer to verify all retirement contribution rates are withheld and remitted properly.

NEW KNOXVILLE LOCAL SCHOOL
 345 South Main Street New Knoxville, OH 45871-0476
 Andy Meckstroth , Treasurer
 Phone: 419-753-2431
 Fax: 419-753-2333



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2022

| Finding Number | Finding Summary | Status | Additional Information |
|-----------------------|--|---|---|
| 2021-001 | <p>Ohio Rev. Code § 117.38 and Ohio Adm. Code § 117-2-03 (B)- Failed to file financial statements prepared using generally accepted accounting principles. The School District prepares its financial statements in accordance with the cash-basis of accounting. This presentation differs (from GAAP).</p> | <p>Not corrected. Repeated as Finding 2022-001.</p> | <p>The School District has decided not to file financial statements according to generally accepted accounting principles due to a cost benefit analysis. The School District will continue to evaluate this each year.</p> |

OHIO AUDITOR OF STATE KEITH FABER



NEW KNOXVILLE LOCAL SCHOOL DISTRICT

AUGLAIZE 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 6/8/2023

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov