



OHIO AUDITOR OF STATE  
**KEITH FABER**





**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY  
JUNE 30, 2018**

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## INDEPENDENT AUDITOR'S REPORT

Central Local School District  
Defiance County  
06289 U.S. Highway 127  
Sherwood, Ohio 43556-9735

To the Board of Education:

### ***Report on the Financial Statements***

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

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

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

### ***Auditor's Responsibility***

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

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

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

***Opinion***

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

***Accounting Basis***

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Keith Faber  
Auditor of State

Columbus, Ohio

February 5, 2019

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF NET POSITION - CASH BASIS  
JUNE 30, 2018**

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$5,305,873</u>
<b>Net Position:</b>	
Restricted for Debt Service	\$198,952
Restricted for Capital Outlay	40,001
Restricted for Other Purposes	798,018
Unrestricted	<u>4,268,902</u>
Total Net Position	<u>\$5,305,873</u>

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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

	<u>Program Cash Receipts</u>			<b>Net (Disbursements) Receipts and Changes in Net Position</b>
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$5,239,318	\$435,332	\$15,919	(\$4,788,067)
Special	1,632,821	48,729	914,204	(669,888)
Vocational	181,369		37,458	(143,911)
Adult/Continuing	10			(10)
Student Intervention Services	15,367			(15,367)
Other	830,767			(830,767)
Support Services:				
Pupils	690,232			(690,232)
Instructional Staff	246,423			(246,423)
Board of Education	86,701			(86,701)
Administration	1,041,842			(1,041,842)
Fiscal	333,548			(333,548)
Business	56,614			(56,614)
Operation and Maintenance of Plant	819,469			(819,469)
Pupil Transportation	982,553			(982,553)
Central	272,053		5,400	(266,653)
Operation of Non-Instructional Services	489,420	234,155	203,919	(51,346)
Extracurricular Activities	505,575	220,911	18,560	(266,104)
Capital Outlay	1,292,661		35,935	(1,256,726)
Debt Service:				
Principal	285,000			(285,000)
Interest and Fiscal Charges	97,301			(97,301)
Total Governmental Activities	<u>\$15,099,044</u>	<u>\$939,127</u>	<u>\$1,231,395</u>	<u>(12,928,522)</u>
<b>General Receipts:</b>				
Taxes:				
Property Taxes, Levied for General Purposes				3,544,583
Property Taxes, Levied for Debt Service				165,564
Property Taxes, Levied for Other				44,760
Income Taxes				957,648
Grants and Entitlements not Restricted to Specific Programs				6,918,035
Gifts and Donations				26,620
Interest				78,392
Miscellaneous				39,925
Proceeds from Sale of Capital Assets				993
Insurance Recoveries				4,979
Refund o Prior Years Expenditures				57,577
Total General Receipts				<u>11,839,076</u>
Change in Net Position				(1,089,446)
Net Position Beginning of Year				<u>6,395,319</u>
Net Position End of Year				<u>\$5,305,873</u>

See Accompanying Notes to the Basic Financial Statements



**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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

	<u>General Fund</u>	<u>Classroom Facilities Maintenance Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in Pooled Cash and Cash Equivalents	<u>\$3,949,376</u>	<u>\$730,464</u>	<u>\$626,033</u>	<u>\$5,305,873</u>
<b>Fund Balances:</b>				
Restricted		\$730,464	\$306,507	\$1,036,971
Committed			319,526	319,526
Assigned	\$1,995,278			1,995,278
Unassigned	1,954,098			1,954,098
<b>Total Fund Balances</b>	<u>\$3,949,376</u>	<u>\$730,464</u>	<u>\$626,033</u>	<u>\$5,305,873</u>

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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

	<u>General Fund</u>	<u>Classroom Facilities Maintenance Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Receipts:</b>				
Property and Other Local Taxes	\$3,544,583	\$44,760	\$165,564	\$3,754,907
Income Tax	957,648			957,648
Intergovernmental	7,410,614	41,989	678,267	8,130,870
Interest	76,712	1,276	404	78,392
Tuition and Fees	478,591			478,591
Rent	1,128		400	1,528
Extracurricular Activities	32,057		161,533	193,590
Gifts and Donations	26,620		18,560	45,180
Customer Sales and Services	4,342		261,076	265,418
Miscellaneous	7,925		32,000	39,925
Total Receipts	<u>12,540,220</u>	<u>88,025</u>	<u>1,317,804</u>	<u>13,946,049</u>
<b>Disbursements:</b>				
Current:				
Instruction:				
Regular	5,220,260		19,058	5,239,318
Special	1,204,636		428,185	1,632,821
Vocational	181,369			181,369
Adult/Continuing	10			10
Student Intervention Services	15,367			15,367
Other	830,767			830,767
Support Services:				
Pupils	690,232			690,232
Instructional Staff	246,423			246,423
Board of Education	86,701			86,701
Administration	1,041,842			1,041,842
Fiscal	329,250	906	3,392	333,548
Business	56,614			56,614
Operation and Maintenance of Plant	819,469			819,469
Pupil Transportation	982,553			982,553
Central	254,351		17,702	272,053
Operation of Non-Instructional Services	5,250	6,812	477,358	489,420
Extracurricular Activities	297,435		208,140	505,575
Capital Outlay	122,904	39,289	1,130,468	1,292,661
Debt Service:				
Principal	130,000		155,000	285,000
Interest and Fiscal Charges	61,801		35,500	97,301
Total Disbursements	<u>12,577,234</u>	<u>47,007</u>	<u>2,474,803</u>	<u>15,099,044</u>
Excess of Receipts Over (Under) Disbursements	<u>(37,014)</u>	<u>41,018</u>	<u>(1,156,999)</u>	<u>(1,152,995)</u>
<b>Other Financing Sources and (Uses):</b>				
Transfers In			330,000	330,000
Proceeds from Sale of Capital Assets	993			993
Insurance Recoveries	4,979			4,979
Refund of Prior Year Expenditures	54,231		3,346	57,577
Transfers Out	(330,000)			(330,000)
Total Other Financing Sources and (Uses)	<u>(269,797)</u>		<u>333,346</u>	<u>63,549</u>
Net Change in Fund Balances	<u>(306,811)</u>	<u>41,018</u>	<u>(823,653)</u>	<u>(1,089,446)</u>
Fund Balances Beginning of Year	<u>4,256,187</u>	<u>689,446</u>	<u>1,449,686</u>	<u>6,395,319</u>
Fund Balances End of Year	<u>\$3,949,376</u>	<u>\$730,464</u>	<u>\$626,033</u>	<u>\$5,305,873</u>

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - BUDGET BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Receipts:</b>				
Property and Other Local Taxes	\$3,447,000	\$3,447,000	\$3,544,583	\$97,583
Income Tax	950,000	950,000	957,648	7,648
Intergovernmental	7,325,135	7,325,135	7,410,614	85,479
Interest	50,000	50,000	76,712	26,712
Tuition and Fees	503,000	503,000	441,384	(61,616)
Rent	2,500	2,500	1,128	(1,372)
Gifts and Donations	4,300	4,300	9,598	5,298
Miscellaneous	20,400	20,400	7,881	(12,519)
Total Receipts	<u>12,302,335</u>	<u>12,302,335</u>	<u>12,449,548</u>	<u>147,213</u>
<b>Disbursements:</b>				
Current:				
Instruction:				
Regular	5,284,260	5,348,747	5,312,168	36,579
Special	1,295,500	1,217,625	1,205,315	12,310
Vocational	193,025	200,913	192,830	8,083
Adult/Continuing		10	10	
Student Intervention Services	11,395	11,525	15,367	(3,842)
Other	875,000	875,000	836,675	38,325
Support Services:				
Pupils	687,940	702,731	694,269	8,462
Instructional Staff	239,800	252,460	247,212	5,248
Board of Education	44,775	96,029	94,863	1,166
Administration	987,950	1,003,967	982,936	21,031
Fiscal	314,700	343,298	339,266	4,032
Business	66,450	68,420	56,614	11,806
Operation and Maintenance of Plant	885,125	948,971	862,531	86,440
Pupil Transportation	995,225	1,178,473	1,084,284	94,189
Central	217,600	304,443	292,331	12,112
Non-Instructional/Shared Services		5,300	5,250	50
Extracurricular Activities	319,950	300,005	295,852	4,153
Capital Outlay	173,000	172,232	122,904	49,328
Debt Service:				
Principal		130,000	130,000	
Interest		61,900	61,801	99
Total Disbursements	<u>12,591,695</u>	<u>13,222,049</u>	<u>12,832,478</u>	<u>389,571</u>
Excess of Disbursements Over Receipts	<u>(289,360)</u>	<u>(919,714)</u>	<u>(382,930)</u>	<u>536,784</u>
<b>Other Financing Sources and (Uses):</b>				
Proceeds from Sale of Fixed Assets	6,000	6,000	993	(5,007)
Insurance Recoveries			4,979	4,979
Refund of Prior Year Expenditures	20,000	20,000	54,231	34,231
Transfers Out	(450,000)	(450,000)	(331,583)	118,417
Advances Out	(40,000)	(40,000)		40,000
Other Financing Uses	(700,000)	(394,150)		394,150
Total Other Financing Sources and (Uses)	<u>(1,164,000)</u>	<u>(858,150)</u>	<u>(271,380)</u>	<u>586,770</u>
Net Change in Fund Balance	<u>(1,453,360)</u>	<u>(1,777,864)</u>	<u>(654,310)</u>	<u>1,123,554</u>
Fund Balance at Beginning of Year	3,833,229	3,833,229	3,833,229	
Prior Year Encumbrances Appropriated	324,506	324,506	324,506	
Fund Balance at End of Year	<u>\$2,704,375</u>	<u>\$2,379,871</u>	<u>3,503,425</u>	<u>\$1,123,554</u>

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - BUDGET BASIS  
CLASSROOM FACILITIES MAINTENANCE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Receipts:</b>				
Property and Other Local Taxes	\$43,825	\$43,825	\$44,760	\$935
Intergovernmental	41,935	41,935	41,989	54
Interest	600	600	1,276	676
Miscellaneous	50	50		(50)
Total Receipts	<u>86,410</u>	<u>86,410</u>	<u>88,025</u>	<u>1,615</u>
<b>Disbursements:</b>				
Current:				
Support Services:				
Fiscal	1,000	1,000	906	94
Operation of Non-Instructional Services	11,000	18,000	6,812	11,188
Capital Outlay	154,000	159,064	50,107	108,957
Total Disbursements	<u>166,000</u>	<u>178,064</u>	<u>57,825</u>	<u>120,239</u>
Excess of Receipts Over (Under) Disbursements	<u>(79,590)</u>	<u>(91,654)</u>	<u>30,200</u>	<u>121,854</u>
<b>Other Financing Uses:</b>				
Other Financing Uses	<u>(300,000)</u>	<u>(300,000)</u>		<u>300,000</u>
Net Change in Fund Balance	(379,590)	(391,654)	30,200	421,854
Fund Balance at Beginning of Year	<u>694,261</u>	<u>694,261</u>	<u>694,261</u>	
Fund Balance at End of Year	<u><u>314,671</u></u>	<u><u>302,607</u></u>	<u><u>\$724,461</u></u>	<u><u>\$421,854</u></u>

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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

	<u>Private Purpose Trust</u>	<u>Agency</u>
<b>Assets:</b>		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	<u>\$4,195</u>	<u>\$54,321</u>
<b>Liabilities:</b>		
Current Liabilities:		
Undistributed Monies		<u>\$54,321</u>
<b>Net Position:</b>		
Held in Trust for Scholarships	<u>\$4,195</u>	

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - CASH BASIS  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Private Purpose Trust</u>
<b>Additions:</b>	
Interest	<u>\$10</u>
<b>Deductions:</b>	
Payments in Accordance with Trust Agreements	<u>200</u>
Change in Net Position	(190)
Net Position Beginning of Year	<u>4,385</u>
Net Position End of Year	<u><u>\$4,195</u></u>

See Accompanying Notes to the Basic Financial Statements

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

Central Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Central Local School District is a local school district as defined by §3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the District. The Board oversees the operations of the District's two instructional/support facilities staffed by 65 non-certified and 80 certified full-time teaching personnel who provide services to 1,065 students and other community members.

**A. Primary Government**

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

**B. Component Units**

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

**C. Jointly Governed Organizations and Purchasing Pools**

The District is associated with organizations, which are defined as jointly governed organizations and group purchasing pools. These organizations include the Northwest Ohio Computer Association (NWOCA); the Northern Buckeye Education Council; the Four County Career Center; the Educational Regional Services System; the Northern Buckeye Health Plan, Northwest Division of Optimal Health Initiative Consortium (OHI) Insurance Benefits Program; and the Northern Buckeye Health Plan, Northern Division of OHI (NBHP) Workers' Compensation Group Rating Plan. These organizations are presented in Notes 15 and 16 to the notes to the basic financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the District's accounting policies.

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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

**A. Basis of Presentation**

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

**1. Government-Wide Financial Statements**

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

The statement of net position presents the cash balance of the governmental activities of the District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the 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 government is responsible. Program receipts include charges paid by the recipient of the program's good or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular group. 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 District's general receipts.

**2. Fund Financial Statements**

During the fiscal year, the District segregates transactions related to certain 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 District at this more detailed level. The focus of governmental financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**B. Fund Accounting**

The 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 District are divided into two categories, governmental and fiduciary.

**1. Governmental Funds**

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

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



**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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

Classroom Facilities Maintenance Fund – This fund accounts for local (i.e. property tax money) and state resources used for maintenance of the District's elementary building facility.

The other governmental funds of the District account for grants and other resources, debt retirement, and capital projects of the District whose uses are restricted to a particular purpose.

**2. Fiduciary Funds**

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are not available to support the District's own programs. The District's private purpose trust fund accounts for college scholarships for students. Agency funds are custodial in nature. The District's agency funds account for various student-managed activities and OHSAA tournament monies.

**C. Basis of Accounting**

Although Ohio Administrative Code Section 117-2-03 (B) requires the District's financial report to follow generally accepted accounting principles (GAAP), the District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. This basis is a comprehensive basis of accounting other than generally accepted accounting principles.

The District's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the 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 this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

**D. Budgetary Process**

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate.

The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control selected by the Board is at the object level for the general fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of

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

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

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. Expenditures plus encumbrances may not legally exceed appropriations.

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes the subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. Encumbrances at year-end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds and may be reported as restricted, committed, or assigned classifications of fund balance.

**E. Cash and Investments**

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

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

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

During fiscal year 2018, investments were limited to commercial paper, negotiable certificates of deposits, federal agency securities, a U.S. treasury note, a U.S. government money market mutual fund and STAR Ohio. All investments are reported at cost, except for STAR Ohio and the money market mutual fund. The District's money market mutual fund investment is recorded at the amount reported by US Bank at June 30, 2018.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments 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 Investments Pools and Pool Participants." The District measures their 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.

There were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance

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of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2018 amounted to \$76,712, of which \$20,235 was interest assigned from other District funds.

**F. Inventory**

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

**G. Capital Assets**

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

**H. Accumulated Leave**

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

**I. Employer Contributions to Cost-Sharing Pension Plans**

The District recognizes the disbursements for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**J. Interfund Receivables/Payables**

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

**K. 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 District.

**L. Pensions/Other Postemployment Benefits (OPEB)**

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

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**M. Long-Term Obligations**

The District's cash basis financial statements do not report liabilities for bonds and other 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 when entering into a capital lease is not the result of a cash transaction, neither another financing source nor capital outlay expenditure are reported at inception. Lease payments are reported when paid.

**N. Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the acquisition and construction of capital improvements.

**O. Interfund Transactions**

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 cash disbursements to the funds that initially paid for them are not presented in the financial statements.

**P. Net Position**

Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for food service operations, music and athletic programs, and Federal and State grants restricted to cash disbursement for specified purposes. The District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position is available. There are no amounts restricted by enabling legislation.

**Q. Fund Balance**

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

Nonspendable – The nonspendable 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. It also includes the long-term amount of interfund loans.

Restricted – Fund balance is reported as 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

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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 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. These amounts are assigned by the District's Board of Education. In the general fund, assigned amounts represent intended uses established by policies of the Board of Education or a district official delegated by that authority by resolution or by State Statute. State statute authorizes the District's 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 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.

**3. ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles**

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

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 affected the District's postemployment benefit plan disclosures, as presented in Note 10 to the basic financial statements.

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

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

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other

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

**B. Compliance**

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

**4. BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the 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 and special revenue classroom facilities maintenance fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The difference between budgetary basis and the cash basis are as follows:

1. Outstanding year-end encumbrances are treated as cash disbursements (budgetary basis) rather than as restricted, committed, or assigned fund balance (cash basis).
2. Certain funds included in the general fund (cash basis) as part of the GASB 54 requirements are not included in the budgetary statement (budgetary basis).

The following table summarizes the adjustments necessary to reconcile to cash basis statements to the budget basis statements for the general fund and the special revenue classroom facilities maintenance fund:

<b>Net Change in Fund Balance</b>	<b>General Fund</b>	<b>Classroom Facilities Maintenance Fund</b>
Cash Basis	(\$306,811)	\$41,018
Outstanding Encumbrances	(355,358)	(10,818)
Perspective Difference:		
Activity of Funds Reclassified for Cash Basis Reporting Purposes	7,859	
Budgetary Basis	(\$654,310)	\$30,200

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**5. DEPOSITS AND INVESTMENTS**

Monies held by the District are classified by State statute into three categories.

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

Inactive deposits are public deposits that the Board 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 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 held by the District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the by at least two percent and to 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 bonds and other obligations of political subdivisions of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

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Investments in stripped principal or interest obligations reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation of the District and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payments 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.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$299,605 of the District's bank balance of \$972,985 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

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

<u>Investment Type</u>	<u>Investment Maturities</u>				
	<u>Balance at Cost</u>	<u>Less than One Year</u>	<u>One to Two Years</u>	<u>Two to Three Years</u>	<u>Three to Five Years</u>
Negotiable Certificates of Deposit	\$556,829	\$401,984		\$154,845	
Federal Home Loan Mortgage Corporation (FHLMC)	429,885	254,885	\$175,000		
Federal National Mortgage Association (FNMA) Bonds	755,000	250,000		295,000	\$210,000
Money Market Mutual Fund	5,020	5,020			
Commercial Paper	1,109,491	1,109,491			
US Treasury Bills	238,196	238,196			
STAR Ohio	1,494,815	1,494,815			
<b>Total Investments</b>	<u>\$4,589,236</u>	<u>\$3,754,391</u>	<u>\$175,000</u>	<u>\$449,845</u>	<u>\$210,000</u>

Interest Rate Risk – The District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of the purchase.

Credit Risk – The following investments carry one of the highest ratings by Moody's and Standard and Poor's.



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<u>Investment Type</u>	<u>Moody's</u>	<u>Standard &amp; Poor's</u>
Commercial Paper	P-1	A-1
FHLMC	Aaa	AA+
FNMA	Aaa	AA+
Money Market Mutual Fund	Aaa	AAAm
STAR Ohio		AAAm

The District's investment policy authorizes the Treasurer to invest a maximum of forty percent of the District's interim funds in commercial papers notes issued by a for profit corporation, business trust or association, real estate investment trust, common law trust, unincorporated business or general or limited partnerships which has assets exceeding \$500,000,000. Such notes must be rated at the time of purchase in the highest classification established by at least two rating services, have an aggregate value that does not exceed ten percent of the outstanding commercial paper of the issuing entity and mature within 180 days after purchase. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The District has no investment policy dealing with investment credit risk beyond the requirements in State statute.

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

**Concentration of Credit Risk** – The District places no limit on the amount it may invest in any one issuer; however, state statute limits investments in commercial paper to 25 percent of the interim monies available for investment at any one time. The District's investments in commercial paper, Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), a U.S. Treasury Bill, negotiable certificates of deposit, and a money market mutual fund, represent 24 percent, 9 percent, 16 percent, 5 percent, 12 percent, and less than 1 percent, respectively of the District's total investments.

**6. PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis, while the District's fiscal year runs from July through June. First-half tax distributions are received by the 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, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2018 represent the collection of calendar year 2017 taxes. Real property taxes for 2018 were levied after April 1, 2017, on the assessed values as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2018 represents collection of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 became a lien December 31, 2016, were levied after April 1, 2017 and are collected with real property taxes. Public

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utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The District receives property taxes from Defiance and Williams counties. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2018, are available to finance fiscal year 2019 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

	2017 Second- Half Collections		2018 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$162,835,480	92%	\$154,083,470	92%
Industrial/Commercial	2,903,670	2%	2,957,720	2%
Public Utility	10,128,460	6%	11,024,950	6%
Total Assessed Value	\$175,867,610	100%	\$168,066,140	100%
Tax rate per \$1,000 of assessed valuation	\$25.15		\$26.58	

**7. INCOME TAX**

The District levies a voted tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1992 and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax receipts in the amount of \$957,648 were credited to the general fund.

**8. RISK MANAGEMENT**

**A. Comprehensive**

The District maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 90% co-insured.

Insurance coverage provided through Phelan Insurance Agency includes the following:

Education General Liability:	
Each Occurrence	\$1,000,000
Personal and Advertising Injury Limit – Each Offense	1,000,000
General Aggregate Limit	2,000,000
Products – Completed Operations Limit	2,000,000
Employee Benefits Liability:	
Each Offense	1,000,000
Aggregate Limit	3,000,000
Employer’s Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease-Each Employee	1,000,000
Aggregate Limit (includes \$3,000,000 umbrella coverage)	4,000,000
Errors and Omissions Liability (\$1,000 deductible):	

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Per Occurrence	1,000,000
Aggregate Limit	1,000,000
Auto Liability:	
Each Accident	1,000,000
Umbrella Coverage	3,000,000

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

**B. Employee Insurance Benefits Program**

The District participates in the Northern Buckeye Health Plan, Northwest Division of Optimal Health Initiative Consortium (OHI) Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities. The District pays monthly premiums to the OHI for the benefits offered to its employees, which includes health, dental, vision, and life insurance plans. Northern Buckeye Health Plan is responsible for the management and operations of the Program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

**C. Workers' Compensation Group Program**

The District participates in the Northern Buckeye Health Plan, Northern Division of OHI (NBHP) Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. The District paid no premiums during the 2018 fiscal year. The Plan is governed by NBHP and the governing members of the Plan. The Executive Director of the NBHP coordinates the management and administration of the program.

**9. DEFINED PENSION BENEFIT PLANS**

***Net Pension Liability***

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

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

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

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

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

Plan Description – The 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](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

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

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

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

The District’s contractually required contribution to SERS was \$190,089 for fiscal year 2018.

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

Plan Description – District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS Ohio's 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](http://www.strsoh.org).

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

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and least age 60.

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

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

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

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

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

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year 2018 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$728,613 for fiscal year 2018.

***Net Pension Liability***

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.04243100%	0.04632026%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.04247990%</u>	<u>0.04554246%</u>	
Change in Proportionate Share	<u>0.00004890%</u>	<u>-0.00077780%</u>	
Proportionate Share of the Net Pension Liability	\$ 2,538,080	\$ 10,818,709	\$ 13,356,789

***Actuarial Assumptions – SERS***

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

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

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

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

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Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.50 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

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

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

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 an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

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

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$3,522,196	\$2,538,080	\$1,713,683

**Actuarial Assumptions – STRS**

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

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

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

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

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



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STRS' investment consultant develops best 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
<b>Total</b>	<b>100.00 %</b>	

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

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

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net pension liability	\$15,508,251	\$10,818,709	\$6,868,723

**Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2018, three members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

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**10. DEFINED BENEFIT OPEB PLANS**

***Net OPEB Liability***

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

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

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

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

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

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

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

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or

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discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer’s SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the District’s surcharge obligation was \$24,064.

The surcharge added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District’s contractually required contribution to SERS was \$31,104 for fiscal year 2018.

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

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

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

***Net OPEB Liability***

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability Current Measurement Date	0.04321740%	0.04554246%	
Proportionate Share of the Net OPEB Liability	\$1,159,841	\$1,776,899	\$2,936,740

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**Actuarial Assumptions – SERS**

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

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

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

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

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation:	
Measurement Date	3.63 percent
Prior Measurement Date	2.98 percent
Medical Trend Assumption	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

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

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

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015 and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed

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by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

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

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

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

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	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
District's proportionate share of the net OPEB liability	\$1,400,656	\$1,159,841	\$969,055

  

	1% Decrease (6.5% decreasing to 4.0%)	Current Trend Rate (7.5% decreasing to 5.0%)	1% Increase (8.5% decreasing to 6.0%)
District's proportionate share of the net OPEB liability	\$941,124	\$1,159,841	\$1,449,317

**Actuarial Assumptions – STRS**

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

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments (COLA)	0.00 percent, effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6 to 11 percent initial, 4.50 percent ultimate

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

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

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

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

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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

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

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

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

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

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

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

**CENTRAL LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
District's proportionate share of the net OPEB liability	\$2,385,458	\$1,776,899	\$1,295,938
		Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$1,234,513	\$1,776,899	\$2,490,742

**11. COMPENSATED ABSENCES**

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Clerical, Technical, and Maintenance and Operation employees are entitled to vacation ranging from 10 to 20 days upon hiring. Employees are permitted to carry over vacation leave earned for two succeeding years.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a prorated basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-third of the accumulated sick leave to a maximum of 60.

**12. LONG-TERM OBLIGATIONS**

During the year ended June 30, 2018, the following changes occurred in long-term obligations:

	Balance at 6/30/2017	Additions	Deductions	Balance at Balance	Due Within One Year
Refunding Bonds Series 2012	\$965,000		\$155,000	\$810,000	\$155,000
HB 264 Energy Conservation Notes Series 2016	875,000		50,000	825,000	50,000
HB 153 Ground Lease Agreement	1,430,000		80,000	1,350,000	255,000
Totals	\$3,270,000		\$285,000	\$2,985,000	\$460,000

Debt outstanding at June 30, 2018 consisted of the following:

Proceeds from the bonds were used for the purpose of refunding of general obligation bonds, dated November 1999, which were issued for the purpose of construction on the new elementary building.

The refunding bonds were issued in November 2011. The bonds consisted of \$1,530,000 in current interest serial bonds.

The refunding bonds outstanding are general obligations of the District for which full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to these liabilities are recorded as expenditures in the Debt Service Bond Retirement Fund. The source payment is derived from a current tax levy.



**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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

On December 2, 2016, the District approved an \$875,000 note (2.4%) through the Sherwood State Bank for a House Bill 264 Energy Conservation Project. The District made improvements to the Middle and High School by updating the heating and air conditioning, doors, windows, and lighting. Proceeds and the initial interest payment were recorded in the Building Fund; however future principal and interest payments will be recorded in the General Fund. The note matures on December 1, 2031.

On May 30, 2017, the District approved a \$1,430,000 (2.97%) ground lease agreement through Capital One Public Funding, LLC for a House Bill 153 Design/Build Project. As noted above, the District made improvements to the Middle and High School. Capital One Public Funding LLC has a mortgage on a portion of the District's land and the Middle / High School which the District is leasing from Capital One Public Funding, LLC until the debt has been paid off. Proceeds were recorded in the Building Fund. Principal and interest payments will be paid from the General Fund. The ground lease agreement matures on December 1, 2031.

The scheduled payments of principal and interest on the debt outstanding as of June 30, 2018 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$460,000	\$84,808	\$544,808
2020	280,000	72,482	352,482
2021	295,000	62,569	357,569
2022	300,000	52,321	352,321
2023	290,000	42,174	332,174
2024-2028	715,000	138,097	853,097
2029-2032	645,000	35,918	680,918
	<u>\$2,985,000</u>	<u>\$488,369</u>	<u>\$3,473,369</u>

**13. FUND BALANCE**

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

**CENTRAL LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

<u>Fund Balance</u>	<u>General Fund</u>	<u>Classroom Facilities Maintenance Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Restricted for:				
Regular Instruction			\$3,560	\$3,560
Extracurricular Activities			62,958	62,958
Food Service Operations			1,036	1,036
Facilities Maintenance		\$730,464		730,464
Debt Retirement			198,952	198,952
Building Construction			40,001	40,001
Total Restricted		<u>730,464</u>	<u>306,507</u>	<u>1,036,971</u>
Committed for:				
Permanent Improvements			319,526	319,526
Assigned for:				
Subsequent Year Appropriations	\$1,548,725			1,548,725
Educational Activities	91,195			91,195
Unpaid Obligations	<u>355,358</u>			<u>355,358</u>
Total Assigned	<u>1,995,278</u>			<u>1,995,278</u>
Unassigned	<u>1,954,098</u>			<u>1,954,098</u>
Total Fund Balance	<u>\$3,949,376</u>	<u>\$730,464</u>	<u>\$626,033</u>	<u>\$5,305,873</u>

**14. SET-ASIDE CALCULATIONS AND FUND RESERVES**

The 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 year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

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

	<u>Capital Acquisition</u>
Set-aside Cash Balance as of June 30, 2017	
Current Year Set-aside Requirement	\$189,061
Current Year Qualifying Expenditures	(102,312)
Current Year Offsets	<u>(\$86,749)</u>
Cash Balance Carried Forward to FY 2019	
Set-aside Cash Balance as of June 30, 2018	

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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

**15. JOINTLY GOVERNED ORGANIZATIONS**

**A. Northwest Ohio Computer Association**

The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of educational entities within the boundaries of Defiance, Fulton, Henry, Lucas, Williams, and Wood 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 educational entities. NWOCA is governed by the Northern Buckeye Education Council and its participating members.

The NWOCA Assembly consists of a superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the Council. NWOCA is governed by a Council chosen from two representatives from each of the six counties in which the member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Board. All payments made by the District for services received are made to the Northern Buckeye Education Council. Total disbursements made by the District to NWOCA during this fiscal year were \$81,325 for various services. Financial information can be obtained from Robin Pfund, who serves as Treasurer, at 209 Nolan Parkway, Archbold, Ohio 43502.

**B. Northern Buckeye Education Council**

The Northern Buckeye Education Council (the Council) was established in 1979 to foster cooperation among school districts located in Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the six counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. The District paid \$10,819 for services rendered by the Northern Buckeye Education Council. To obtain financial information write to the Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 209 Nolan Parkway, Archbold, Ohio 43502.

**C. Four County Career Center**

The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center and one representative from the participating school districts elected boards. The Four County Career Center possesses its own budgeting and taxing authority. Total disbursements made by the District to Four County Career Center during this fiscal year were \$109. To obtain financial information write to the Four County Career Center, Connie Nicely, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

**D. Educational Regional Service System**

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

**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

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

The System is a 16-region system consisting of a State Regional Alliance Advisory Board, an advisory council and 5 specialized subcommittees for each of the 16 regions, a fiscal agent for each region, educational service centers, special education regional resource centers, data acquisition sites, and other regional service providers. The 34 member State Regional Alliance Advisory Board is not a policymaking body. Members are to receive no compensation. The Board's duties are to promote communication and coordination among the State Board of Education, the Department of Education, fiscal agents, advisory councils, and customers of the System. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained from the Educational Service Center of Lake Erie West, 2275 Collingwood, Toledo, Ohio 43620.

**16. GROUP PURCHASING POOLS**

**A. Employee Insurance Benefits Program**

The District participates in a group health insurance pool through the Northern Buckeye Health Plan (NBHP), Northwest Division of Optimal Health Initiative Consortium (OHI) Insurance Benefits Program. NBHP is a joint self-insurance arrangement created pursuant to the authority vested in Ohio Rev. Code Section 9.833. NBHP is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. NBHP is governed by OHI and its participating members.

The District contributed a total of \$1,258,408 to Northern Buckeye Health Plan, Northwest Division of OHI for all employee insurance plans. Financial information for the period can be obtained from Jenny Jostworth, Treasurer, at 10999 Reed Hartman Highway, Suite 304E, Cincinnati, Ohio 45242.

**B. Workers' Compensation Group Rating Plan**

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

NBHP has retained Sheakley Uniservice as the servicing agent to perform administrative, actuarial, cost control, claims, and safety consulting services and unemployment claims services for program participants. During this fiscal year, the District's enrollment fee to the WCGRP to cover the costs of administering the program was waived.

**17. CONTINGENCIES**

**A. Grants**

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

**CENTRAL LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

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 District at June 30, 2018.

**B. Litigation**

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

**C. School Funding**

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year-end. As of the date of this report, FTE statement #2 was made on December 14, 2018 and resulted in the District being owed \$4,133 from ODE. This amount is not recorded in the financial statements.

**18. LEASE**

In fiscal year 2016, the District acquired a bus lease purchase agreement. The District disbursed \$22,301 to pay lease costs for the fiscal year ended June 30, 2018. These disbursements are reflected on the Support Services – Pupil Transportation function code in the general fund on the accompanying financial statements.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of June 30, 2018:

<b>General Long-Term Obligations</b>	
<u>Year Ending June 30:</u>	<u>Bus</u>
2019	\$23,664
Total Future Minimum Lease Payments	23,664
Less: Amount Representing Interest	(691)
Present Value of Future Minimum Lease Payments	\$22,973

**19. INTERFUND TRANSACTIONS**

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

<u>Transfers from the General Fund</u>	<u>Amount</u>
Nonmajor Governmental Funds:	
Food Service Fund	\$30,000
Capital Projects Fund	300,000
Totals	\$330,000

**CENTRAL LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018  
(Continued)**

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 account for in other funds in accordance with budgetary authorizations. Interfund transfers between governmental funds are eliminated on the government-wide financial statements.

**20. TAX ABATEMENTS ENTERED INTO BY OTHER GOVERNMENTS**

The County of Defiance along with Farmer and Mark Townships entered into Tax Increment Financing (TIF's) agreements for public road improvements with various companies to bring jobs and economic development into the area. Annual payments in lieu of taxes are made directly to the townships by the companies for the cost of the road improvements. The agreements affect the property tax receipts collected and distributed to the District. These agreements both ended in 2017, so under the agreements, the District property taxes were reduced by \$0 during fiscal year 2018. The District did not receive any compensation for the forgone property taxes.



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

Central Local School District  
Defiance County  
06289 U.S. Highway 127  
Sherwood, Ohio 43556-9735

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Central Local School District, Defiance County, Ohio (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 5, 2019, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

***Internal Control Over Financial Reporting***

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

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

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

***Compliance and Other Matters***

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

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

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

***Purpose of this Report***

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



Keith Faber  
Auditor of State

Columbus, Ohio

February 5, 2019



**CENTRAL LOCAL SCHOOL DISTRICT  
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2018**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2018-001**

**Noncompliance Citation**

**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 prepare its annual financial report in accordance with generally accepted accounting principles (GAAP).

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

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

**Officials' Response:**

The District has determined it is more efficient to report financial results on a basis other than GAAP. The Board feels that the information contained in such statements is sufficient.

**FINDING NUMBER 2018-002**

**Material Weakness – Monitoring of Financial Statements**

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.

Prior year encumbrances of \$12,064 were improperly included on the Special Revenue Classroom Facilities Maintenance Fund budgetary statement.

This error was the result of inadequate policies and procedures in reviewing the financial statements. As a result, the District's financial statements did not correctly reflect the financial activity of the District. The accompanying financial statements have been adjusted to correct this and other errors. Additional errors were noted in smaller relative amounts.

To help ensure the District's financial statements are complete and accurate, the District should adopt policies and procedures, including a final review of the statements by the Treasurer and Board, to identify and correct errors and omissions.

**Officials' Response:**

The District will review the financial reporting errors with the firm that prepared the financial report and monitor these going forward.

# CENTRAL LOCAL SCHOOL DISTRICT

06289 US Highway 127, Sherwood, Ohio 43556-9735

419-658-2808 ▪ Fax 419-658-4010

Stephen Arnold  
*Superintendent*

**BOARD OF EDUCATION**  
Jennifer Johns ▪ David Karlstadt  
Scott Schindler ▪ Jeff Timbrook ▪ Roger Zeedyk

Kerry Samples  
*Treasurer*

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS JUNE 30, 2018

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2017-001	This finding was first reported in 2010. Ohio Rev. Code § 117.38 and Ohio Admin. Code 117-2-03(B) for reporting on basis other than generally accepted accounting principles.	Not corrected and reissued as finding 2018-001 in this report.	This finding reoccurred since the District has determined that it is more cost effective to report financial results on a basis other than GAAP. The Board feels that the information contained in such statements is sufficient.
2017-002	This finding was first reported in 2017. Material weakness over financial reporting resulting in errors in the financial statements and notes to the financial statements.	Not corrected and reissued as finding 2018-002 in this report.	This finding reoccurred due to the compiler overlooking reporting requirements for budgetary presentation. The District will review the financial statement errors with the firm that prepared the financial report and monitor these errors going forward.

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# OHIO AUDITOR OF STATE KEITH FABER



**CENTRAL LOCAL SCHOOL DISTRICT**

**DEFIANCE COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 21, 2019**