AVON LOCAL SCHOOL DISTRICT
LORAIN COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2018

OHIO AUDITOR OF STATE
KEITH FABER

AVON LOCAL SCHOOL DISTRICT
LORAIN COUNTY

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OHIO AUDITOR OF STATE
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INDEPENDENT AUDITOR'S REPORT

Avon Local School District
Lorain County
35573 Detroit Road
Avon, Ohio 44011

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Avon Local School District, Lorain 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 accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no 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.

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www.ohioauditor.gov

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Avon Local School District, Lorain County, Ohio, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2S to the financial statements, during 2018, the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 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

March 26, 2019

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The discussion and analysis of the Avon Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2018 are as follows:

- Net position increased $27,924,876, which represents a 76% increase from 2017 restated net position.
- Capital assets decreased $1,896,185 during fiscal year 2018.
- During the fiscal year, outstanding debt decreased from $64,332,305 to $62,161,297 primarily due to principal payments made by the School District.
- A decrease in net pension liability and net OPEB liability substantially decreased all instructional and support services expenses compared to fiscal year 2017. See further explanation after Table 1.
- The School District implemented GASB 75, which reduced net position as previously reported by $12,515,798.

Using this Annual Report

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

The *Statement of Net Position and Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the School District, the general fund and debt service fund are the most significant funds.

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While the basic financial statements contain the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2018?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the *Statement of Net Position* and the *Statement of Activities*, governmental activities include the School District's programs and services, including instruction, support services, extracurricular activities, and non-instructional services, food service operations and community services.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The major funds financial statements begin on page 18. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the debt service fund.

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

Proprietary Fund The School District maintains one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District uses an internal service fund to account for its health insurance benefits. Because this service predominately benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements. The proprietary fund financial statements begin on page 23.

Reporting the School District's Fiduciary Responsibilities

The School District acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in an agency fund. The School District's fiduciary activities are reported in separate Statement of Fiduciary Assets and Liabilities on page 26. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2018 compared to 2017:

Table 1
Net Position

	Governmental Activities 2018	Governmental Activities Restated 2017
Assets		
Current and Other Assets	$ 51,743,252	$ 48,957,184
Capital Assets	79,987,102	81,883,287
Total Assets	131,730,354	130,840,471
Deferred Outflows of Resources		
Pension & OPEB	16,038,606	13,789,821
Liabilities		
Current and Other Liabilities	6,010,104	6,191,399
Long-Term Liabilities:		
Due Within One Year	2,661,857	2,454,800
Due Within More Than One Year:		
Net Pension & OPEB Liability	55,518,918	74,706,096
Other Amounts	63,169,446	65,295,135
Total Liabilities	127,360,325	148,647,430
Deferred Inflows of Resources		
Property Taxes and Other	23,551,100	28,698,045
Pension & OPEB	2,947,677	2,238,649
Payment in Lieu of Taxes	2,591,901	1,653,087
Total Deferred Inflows of Resources	29,090,678	32,589,781
Net Position		
Net Investment in Capital Assets	20,158,712	20,391,392
Restricted	6,344,035	4,345,944
Unrestricted	(35,184,790)	(61,344,255)
Total Net Position	$ (8,682,043)	$ (36,606,919)

The net pension liability (NPL) is reported by the School District at June 30, 2018 and is reported pursuant to GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*. For fiscal year 2018, the School District adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

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

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

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

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

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

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

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

As a result of implementing GASB 75, the School District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from ($24,091,121) to ($36,606,919).

At year end, capital assets represented 61% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Net investment in capital assets was $20,158,712 at June 30, 2018. These capital assets are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net position, $6,344,035, represents resources that are subject to external restrictions on how they may be used. The deficit balance of government-wide unrestricted net position was ($35,184,790), which is primarily caused from GASB 68 and GASB 75.

Total assets showed a net increase of $889,883, primarily by an increase in payment in lieu of taxes receivable as more taxes are be abated. Capital assets decreased as a result of depreciation and disposals exceeding additions.

Total liabilities decreased $21,287,105. Claims payable increased approximately 40% due to several larger claims in 2018.

The significant decrease in net pension liability is largely the result of a change in benefit terms in which STRS reduced their COLA to zero coupled by a slight reduction in COLA benefits by SERS. The significant increase in deferred outflows and inflows related to pension/OPEB are primarily from the change of assumptions and the difference in projected and actual investments earnings, respectively. All components of pension and OPEB accruals contribute to the fluctuations in deferred outflows/inflows and NPL/NOL and are described in more detail in their respective notes.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2018 and 2017.

Table 2
Changes in Net Position

	Governmental Activities	
	2018	2017
Revenues		
Program Revenues:		
Charges for Services	$ 2,634,862	$ 2,351,126
Operating Grants	3,154,470	3,332,118
Total Program Revenues	5,789,332	5,683,244
General Revenues:		
Property Taxes	37,613,418	29,331,930
Grants and Entitlements Not Restricted	8,319,922	8,228,946
Payments in Lieu of Taxes	3,348,083	2,243,083
Other	516,207	346,072
Total General Revenues	49,797,630	40,150,031
Total Revenues	55,586,962	45,833,275
Program Expenses		
Instruction:		
Regular	6,031,198	22,550,035
Special	4,673,810	8,493,416
Vocational	35,839	221,469
Other	736,583	722,094
Support Services:		
Pupils	1,200,950	2,471,939
Instructional Staff	648,453	1,208,734
Board of Education	58,922	43,009
Administration	1,801,157	3,198,815
Fiscal	1,098,948	1,171,968
Business	186,556	105,258
Operation and Maintenance of Plant	3,554,256	3,789,607
Pupil Transportation	2,561,343	2,579,366
Central	247,674	280,726
Operation of Non-Instructional Services:		
Food Service Operations	802,204	1,134,600
Community Services	887,434	993,909
Extracurricular Activities	1,038,392	1,411,766
Debt Service:		
Interest and Fiscal Charges	2,098,367	2,223,041
Issuance Costs	0	129,846
Total Expenses	27,662,086	52,729,598
Increase (Decrease) in Net Position	$ 27,924,876	$ (6,896,323)

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of $90,839 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of $1,529,627. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 Program Expenses under GASB 75	$	27,662,086
Negative OPEB Expense under GASB 75		1,529,627
2018 Contractually Required Contribution		119,812
Adjusted 2018 Program Expenses		29,311,525
Total 2017 Program Expenses under GASB 45		52,729,598
Decrease in Program Expenses not Related to OPEB	$	(23,418,073)

Overall revenue increased $9,753,687, partially due to an increase in property taxes due to an increase in amount available for advance and in increase in payment in lieu of taxes as abatements increased.

Program expenses decreased $25,067,512. See financial highlights for explanation of fluctuations in expenses.

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The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Service		Net Cost of Service	
	2018	2017	2018	2017
Instruction:				
Regular	$ 6,031,198	$ 22,550,035	$ 5,528,508	$ 21,600,907
Special	4,673,810	8,493,416	2,766,887	6,879,456
Vocational	35,839	221,469	23,269	209,850
Other	736,583	722,094	736,583	722,094
Support Services:				
Pupils	1,200,950	2,471,939	876,138	2,259,648
Instructional Staff	648,453	1,208,734	579,901	1,122,590
Board of Education	58,922	43,009	58,922	43,009
Administration	1,801,157	3,198,815	1,699,965	3,160,918
Fiscal	1,098,948	1,171,968	1,098,948	1,171,968
Business	186,556	105,258	186,556	105,258
Operation and Maintenance of Plant	3,554,256	3,789,607	3,337,260	3,789,607
Pupil Transportation	2,561,343	2,579,366	2,206,487	2,425,173
Central	247,674	280,726	238,674	271,726
Operation of Non-Instructional Services:				
Food Service Operations	802,204	1,134,600	(281,326)	61,270
Community Services	887,434	993,909	(94,899)	(275,438)
Extracurricular Activities	1,038,392	1,411,766	812,514	1,145,431
Debt Service:				
Interest and Fiscal Charges	2,098,367	2,352,887	2,098,367	2,352,887
Total Expenses	$ 27,662,086	$ 52,729,598	$ 21,872,754	$ 47,046,354

The dependence upon general revenues for governmental activities is apparent. Over 79% of governmental activities are supported through taxes and other general revenues; such revenues are 89% of total governmental revenues. The community, as a whole, is by far the primary support for the School District students.

The total and net cost of services changes were primarily caused by the change in COLA related to NPL as previously discussed.

Governmental Funds

Information about the School District's major funds starts on page 18. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of $55,620,127 and total expenditures of $48,555,779 for the fiscal year. The net change in fund balances for the fiscal year was an increase of $7,064,348 for all governmental funds with the most significant increase in the general fund.

The general fund's net change in fund balance for fiscal year 2018 was an increase of $4,897,802. This increase is primarily due an increase in advances available for property taxes and an increase in payment in lieu of taxes due to an increase in abatements.

The debt service fund's net change in fund balance for fiscal year 2018 was an increase of $907,682. This increase is primarily from the timing of taxes collected as compared to when debt payments are due.

General Fund Budgeting Highlights

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

During the course of fiscal year 2018, the School District amended its general fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, actual budget basis revenue and other financing sources was $348,744 higher than the final budget basis revenue and other financing sources of $40,015,708. The overestimation of payment in lieu of taxes was the primary difference.

Original budget basis revenue and other financing sources of $40,015,708 was the same as the final budget basis revenue and other financing sources.

Final budget expenditure appropriations and other financing uses of $42,365,907 were $1,003,858 higher than the actual expenditures of $41,362,049, due to conservative spending.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2018, the School District had $79,987,102 invested in capital assets, net of accumulated depreciation. Table 4 shows fiscal year 2018 balances compared with 2017.

Table 4
Capital Assets at June 30
(Net of Depreciation)

	2018	2017
Land	$ 3,603,900	$ 3,603,900
Land Improvements	1,871,192	1,937,202
Buildings and Improvements	72,862,493	74,847,083
Furniture and Equipment	1,050,941	985,487
Vehicles	598,576	509,615
Totals	$ 79,987,102	$ 81,883,287

The $1,896,185 decrease in capital assets was attributable to depreciation and disposals exceeding capital asset additions. See Note 10 for more information about the capital assets of the School District.

Debt

At June 30, 2018, the School District had $62,161,297 in debt outstanding. See Note 11 for additional details. Table 5 summarizes debt outstanding.

Table 5
Outstanding Debt at Year End

	2018	2017
Bonds Payable	$ 55,948,955	$ 57,068,955
Accretion on Capital Appreciation Bonds	2,206,754	2,840,413
Premium on Bonds	3,832,454	4,166,655
Capital Lease	173,134	256,282
Total	$ 62,161,297	$ 64,332,305

Current Issues

The School District has committed itself to a fiscal discipline based on long-term plans. The School District is financially stable. The Board of Education and administration have implemented fiscal management disciplines that utilize a variety of formal plans. They have kept to the plan of working within the five-year budget plan, finished the building and renovation projections and are working towards the next phases. The enrollment and community continue to grow at a steady pace.

The financial future of the School District is not without its challenges. These challenges are internal and external in nature. The internal challenges will continue to exist, as the School District must rely heavily on local property taxes to fund its operations. Thus management must diligently plan expenses staying carefully within its five-year forecast. Additional revenues than what was estimated must not be treated as a windfall to expand programs but as an opportunity to extend the time horizon of the five-year forecast. The School District has the necessary revenue base to support current program levels for the next fiscal year. The district was able to secure funding generated by the passage of a continuous substitute levy, which combined all of their five emergency levies into one levy. This levy also allows for expansion of revenue resources through new construction growth starting in 2020. The School District decided to place the one permanent improvement levy that needs to be renewed on the ballot as a continuous issue for approval in November of 2018. Decisions on how to proceed about additional operational funds for the future will need to be made in a relatively short time frame.

The tax base has seemed to steady, consequently the housing market is continuing to grow. The valuation of the community grew higher than any other tax base in the county. 2018 is a reappraisal year a healthy increase in all areas of valuation is expected and projected in the forecast.

As the community continues to grow, State funding is a question, this will require management to plan carefully and prudently to provide the resources to meet student needs over the next several years. If the trend of continued enrollment growth and valuation growth continue, the district will remain as a capped school district on the state funding formula.

Student growth, staffing needs, state funding reductions, and negotiated contract issues, and continued growth in operation costs will require the district to address the financial operating needs of the School District. All of the School District's financial abilities will be needed to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, Katie Henes, Treasurer, can be contacted at the Avon Local School District, 36600 Detroit Road, Avon, Ohio 44011.

Avon Local School District
Lorain County, Ohio
Statement of Net Position
June 30, 2018

		Governmental Activities
Assets		
Equity in Pooled Cash and Investments	$	15,387,035
Cash and Cash Equivalents with Fiscal Agent		1,589,346
Receivables:		
Intergovernmental		241,855
Payment in Lieu of Taxes		2,969,992
Property Taxes		31,555,024
Nondepreciable Capital Assets		3,603,900
Depreciable Capital Assets (Net)		76,383,202
Total Assets		131,730,354
Deferred Outflows of Resources		
Pension		15,480,715
OPEB		557,891
Total Deferred Outflows of Resources		16,038,606
Liabilities		
Accounts Payable		485,261
Accrued Wages and Benefits		3,860,371
Contracts Payable		3,000
Intergovernmental Payable		937,076
Matured Compensated Absences Payable		69,681
Accrued Interest Payable		150,533
Claims Payable		504,182
Long Term Liabilities:		
Due Within One Year		2,661,857
Due In More Than One Year:		
Net Pension Liability		45,284,654
Net OPEB Liability		10,234,264
Other Amounts Due in More Than One Year		63,169,446
Total Liabilities		127,360,325
Deferred Inflows of Resources		
Property Taxes Levied for the Next Year		23,551,100
Payment in Lieu of Taxes Levied for the Next Year		2,591,901
Pension		1,757,691
OPEB		1,189,986
Total Deferred Inflows of Resources		29,090,678
Net Position		
Net Investment in Capital Assets		20,158,712
Restricted For:		
Capital Outlay		1,351,846
Debt Service		3,138,921
Other Purposes		1,853,268
Unrestricted		(35,184,790)
Total Net Position	$	(8,682,043)

See accompanying notes to the basic financial statements.

Avon Local School District
Lorain County, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2018

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Governmental Activities
Governmental Activities				
Instruction:				
Regular	$ 6,031,198	$ 433,331	$ 69,359	$ (5,528,508)
Special	4,673,810	242,462	1,664,461	(2,766,887)
Vocational	35,839	0	12,570	(23,269)
Other	736,583	0	0	(736,583)
Support Services:				
Pupils	1,200,950	94,791	230,021	(876,138)
Instructional Staff	648,453	0	68,552	(579,901)
Board of Education	58,922	0	0	(58,922)
Administration	1,801,157	101,192	0	(1,699,965)
Fiscal	1,098,948	0	0	(1,098,948)
Business	186,556	0	0	(186,556)
Operation and Maintenance of Plant	3,554,256	216,996	0	(3,337,260)
Pupil Transportation	2,561,343	164,347	190,509	(2,206,487)
Central	247,674	0	9,000	(238,674)
Operation of Non-Instructional Services:				
Food Service Operations	802,204	787,069	296,461	281,326
Community Services	887,434	368,796	613,537	94,899
Extracurricular Activities	1,038,392	225,878	0	(812,514)
Debt Service:				
Interest and Fiscal Charges	2,098,367	0	0	(2,098,367)
Total	$ 27,662,086	$ 2,634,862	$ 3,154,470	(21,872,754)

General Revenues	
Property Taxes Levied for:	
General Purposes	32,218,218
Debt Service	4,478,901
Capital Outlay	916,299
Grants and Entitlements Not Restricted to Specific Programs	8,319,922
Payment in Lieu of Taxes	3,348,083
Investment Earnings	166,850
Miscellaneous	349,357
Total General Revenues	49,797,630
Change in Net Position	27,924,876
Net Position Beginning of Year (Restated-See Note 2S)	(36,606,919)
Net Position End of Year	$ (8,682,043)

See accompanying notes to the basic financial statements.

Avon Local School District
Lorain County, Ohio
Balance Sheet
Governmental Funds
June 30, 2018

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Investments	$ 9,652,069	$ 2,404,470	$ 3,226,741	$ 15,283,280
Receivables:				
Intergovernmental	6,792	0	235,063	241,855
Payment in Lieu of Taxes	2,764,975	150,334	54,683	2,969,992
Property Taxes	27,034,497	3,747,891	772,636	31,555,024
Total Assets	$ 39,458,333	$ 6,302,695	$ 4,289,123	$ 50,050,151
Liabilities				
Accounts Payable	$ 246,179	$ 0	$ 239,082	$ 485,261
Accrued Wages and Benefits	3,729,989	0	130,382	3,860,371
Contracts Payable	0	0	3,000	3,000
Intergovernmental Payable	842,374	0	94,702	937,076
Matured Compensated Absences Payable	69,681	0	0	69,681
Total Liabilities	4,888,223	0	467,166	5,355,389
Deferred Inflows of Resources				
Property Taxes Levied for the Next Year	20,195,450	2,783,162	572,488	23,551,100
Unavailable Revenue	146,905	20,366	145,512	312,783
Payment in Lieu of Taxes Levied for the Next Year	2,440,284	103,923	47,694	2,591,901
Total Deferred Inflows of Resources	22,782,639	2,907,451	765,694	26,455,784
Fund Balances				
Restricted	0	3,395,244	3,115,847	6,511,091
Committed	11,000	0	0	11,000
Assigned	11,774,436	0	0	11,774,436
Unassigned	2,035	0	(59,584)	(57,549)
Total Fund Balances	11,787,471	3,395,244	3,056,263	18,238,978
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 39,458,333	$ 6,302,695	$ 4,289,123	$ 50,050,151

See accompanying notes to the basic financial statements.

Avon Local School District
Lorain County, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2018

Total Governmental Fund Balances		$ 18,238,978
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		79,987,102
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Intergovernmental	$ 141,314	
Property Taxes	171,469	312,783
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		1,188,919
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		(150,533)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	15,480,715	
Deferred Outflows - OPEB	557,891	
Deferred Inflows - Pension	(1,757,691)	
Deferred Inflows - OPEB	(1,189,986)	
Net Pension Liability	(45,284,654)	
Net OPEB Liability	(10,234,264)	(42,427,989)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	(52,500,000)	
Capital Appreciation Bonds	(3,448,958)	
Bond Premium	(3,832,454)	
Accretion of Interest - Capital Appreciation Bonds	(2,206,751)	
Capital Lease Obligation	(173,134)	
Compensated Absences	(3,670,006)	(65,831,303)
Net Position of Governmental Activities		$ (8,682,043)

See accompanying notes to the basic financial statements.

Avon Local School District
Lorain County, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2018

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues				
Property and Other Local Taxes	$ 32,250,334	$ 4,483,462	$ 917,172	$ 37,650,968
Intergovernmental	8,885,981	476,170	2,039,633	11,401,784
Investment Income	166,850	0	0	166,850
Tuition and Fees	1,082,593	0	0	1,082,593
Extracurricular Activities	153,860	0	225,878	379,738
Rentals	34,606	0	16,674	51,280
Charges for Services	16,667	0	1,155,865	1,172,532
Contributions and Donations	94,745	0	39,349	134,094
Payment in Lieu of Taxes	3,089,666	196,745	61,672	3,348,083
Miscellaneous	148,715	0	83,490	232,205
Total Revenues	45,924,017	5,156,377	4,539,733	55,620,127
Expenditures				
Current:				
Instruction:				
Regular	17,929,281	0	413,828	18,343,109
Special	6,934,379	0	538,955	7,473,334
Vocational	230,879	0	0	230,879
Other	736,583	0	0	736,583
Support Services:				
Pupils	2,280,866	0	139,638	2,420,504
Instructional Staff	1,036,531	0	110,157	1,146,688
Board of Education	48,800	0	0	48,800
Administration	2,824,471	0	53,158	2,877,629
Fiscal	1,066,750	68,687	13,750	1,149,187
Business	197,430	0	2,574	200,004
Operation and Maintenance of Plant	3,663,861	0	24,925	3,688,786
Pupil Transportation	2,875,153	0	0	2,875,153
Central	255,606	0	9,000	264,606
Extracurricular Activities	721,294	0	247,704	968,998
Operation of Non-Instructional Services:				
Food Service Operations	0	0	802,204	802,204
Community Services	4,600	0	848,241	852,841
Other	4,560	0	0	4,560
Capital Outlay	0	0	201,797	201,797
Debt Service:				
Principal Retirement	0	1,120,000	83,148	1,203,148
Interest and Fiscal Charges	0	3,060,008	6,961	3,066,969
Total Expenditures	40,811,044	4,248,695	3,496,040	48,555,779
Excess of Revenues Over (Under) Expenditures	5,112,973	907,682	1,043,693	7,064,348
Other Financing Sources (Uses)				
Transfers In	0	0	215,171	215,171
Transfers Out	(215,171)	0	0	(215,171)
Total Other Financing Sources (Uses)	(215,171)	0	215,171	0
Net Change in Fund Balance	4,897,802	907,682	1,258,864	7,064,348
Fund Balances Beginning of Year	6,889,669	2,487,562	1,797,399	11,174,630
Fund Balances End of Year	$ 11,787,471	$ 3,395,244	$ 3,056,263	$ 18,238,978

See accompanying notes to the basic financial statements.

Avon Local School District
Lorain County, Ohio
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds		$ 7,064,348
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital Asset Additions	$ 556,376	
Current Year Depreciation	(2,450,261)	(1,893,885)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(2,300)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Intergovernmental	6,685	
Property Taxes	(37,550)	(30,865)
Repayment of principal and accreted interest is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
General Obligation Bonds	925,000	
Capital Lease	83,148	
Capital Appreciation Bonds	195,000	
Accreted Interest on Capital Appreciation Bonds	1,155,000	2,358,148
In the statement of activities, interest is accrued on outstanding bonds, and bond premium and the gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when bonds are issued.		
Accrued Interest Payable	742	
Amortization of Premium on Bonds (net of amount removed on refunded bonds)	334,201	334,943
Contractually required Pension/OPEB contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
Pension	3,313,332	
OPEB	119,812	3,433,144
Except for amount reported as deferred inflows/outflows, changes in the net pension asset/liability are reported as Pension/OPEB expense in the statement of activities.		
Pension	15,764,164	
OPEB	1,529,627	17,293,791
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the entity-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		141,269
Some expenses reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences		(252,376)
Accretion on capital appreciation bonds is an expenditure in the governmental funds, but is allocated as an expense over the life of the bonds in the statement of activities.		(521,341)
Change in Net Position of Governmental Activities		$ 27,924,876

See accompanying notes to the basic financial statements.

Avon Local School District
Lorain County, Ohio
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Over (Under)
Revenues and Other Financing Sources	$ 40,015,708	$ 40,015,708	$ 40,364,452	$ 348,744
Expenditures and Other Financing Uses	42,365,607	42,365,907	41,362,049	1,003,858
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(2,349,899)	(2,350,199)	(997,597)	1,352,602
Fund Balance Beginning of Year	9,258,613	9,258,613	9,258,613	0
Prior Year Encumbrances Appropriated	479,593	479,593	479,593	0
Fund Balance End of Year	$ 7,388,307	$ 7,388,007	$ 8,740,609	$ 1,352,602

See accompanying notes to the basic financial statements.

Avon Local School District
Lorain County, Ohio
Statement of Fund Net Position
Proprietary Fund
June 30, 2018

	Governmental Activities - Internal Service Fund
Assets	
Current Assets	
Equity in Pooled Cash and Investments	$ 103,755
Cash and Cash Equivalents with Fiscal Agent	1,589,346
Total Assets	1,693,101
Liabilities	
Current Liabilities	
Claims Payable	504,182
Net Position	
Unrestricted	$ 1,188,919

See accompanying notes to the basic financial statements.

Avon Local School District
Lorain County, Ohio
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2018

	Governmental Activities - Internal Service Fund
Operating Revenues	
Charges for Services	$ 6,138,381
Operating Expenses	
Purchased Services	401,008
Materials and supplies	1,743
Claims	5,598,080
Total Operating Expenses	6,000,831
Operating Income (Loss)	137,550
Non-Operating Revenues (Expenses)	
Interest	3,719
Change in Net Position	141,269
Net Position Beginning of Year	1,047,650
Net Position End of Year	$ 1,188,919

See accompanying notes to the basic financial statements.

Avon Local School District
Lorain County, Ohio
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2018

		Governmental Activities - Internal Service Fund
Cash Flows From Operating Activities		
Cash Received for Charges for Services	$	6,138,381
Cash Paid for Goods and Services		(402,751)
Cash Paid for Claims		(5,454,629)
Net Cash Provided By (Used For) Operating Activities		281,001
Cash Flows From Investing Activities		
Interest on Investments		3,719
Net Increase (Decrease) in Cash and Cash Equivalents		284,720
Cash and Cash Investments, Beginning of Year		1,408,381
Cash and Cash Investments, End of Year	$	1,693,101
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities		
Operating Income (Loss)	$	137,550
Adjustments:		
Increase (Decrease) in Liabilities:		
Claims Payable		143,451
Total Adjustments		143,451
Net Cash Provided By (Used For) Operating Activities	$	281,001

See accompanying notes to the basic financial statements.

Avon Local School District
Lorain County, Ohio
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2018

	Agency
Assets	
Equity in Pooled Cash and Investments	$ 266,835
Total Assets	$ 266,835
Liabilities	
Accounts Payable	$ 10
Due to Others	188,220
Due to Students	78,605
Total Liabilities	$ 266,835

See accompanying notes to the basic financial statements.

NOTE 1: DESCRIPTION OF THE REPORTING ENTITY

The Avon Local School District (the School District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District.

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

Within the School District boundaries, there are various nonpublic schools. Current State legislation provides funding to these nonpublic schools. There monies are received and disbursed by the School District on behalf of the nonpublic schools by the Treasurer of the School District, as directed by the nonpublic schools. These transactions are reported as a governmental activity of the School District.

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

The School District is associated with Connect, the Lorain County Joint Vocational School District, Great Lakes Council of Governments, and the Ohio Schools Council which are considered to be jointly governed organizations. These organizations and their relationships with the School District are described in more detail in Note 16.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. <u>Basis of Presentation</u>

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

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is also eliminated to avoid "doubling up" revenues and expenses.

The statement of net position presents the financial condition of the governmental activities of the School District at year-end. The statement of activities present a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities of the School District. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business activity or governmental activity is self-financing or draws from the general revenues of the School District.

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

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

Debt Service Fund The Debt Service Fund receives property taxes for the payment of general obligation bonds and notes payable.

The other governmental funds of the School District account for grants and other resources to which the District is bound to observe constraints imposed upon the use of the resources.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The School District's only proprietary fund is internal service.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District, or to other governments, on a cost reimbursement basis. The School District's internal service fund is:

Self-Insurance Fund This fund accounts for monies received from other funds as payment for providing employee benefits. The self-insurance fund may make payments for services provided to employees, for reimbursements to employees who have paid providers, to third party administrators for claim payments or administration, for stop-loss coverage, or other reinsurance or other similar purpose.

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 School District under a trust agreement for individuals, private organizations, or other governments and are, therefore, not available to support the School District's own programs. The School District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for student managed activities and miscellaneous agency funds.

C. Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the School District are included on the statement of net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

Fund Financial Statements

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

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

The agency fund does not report a measurement focus as it does not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflows/inflows of resources, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-Exchange Transactions

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a

modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.
Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees, and rentals.

Deferred Inflows of Resources and Deferred Outflows of Resources
In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 14 and 15.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes, payment in lieu of taxes, pension, OPEB and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2018, but which were levied to finance fiscal year 2019 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue may include delinquent property taxes, intergovernmental grants, and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB are reported on the government-wide statement of net position. (See Notes 14 and 15).

Expenses/Expenditures
On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as intergovernmental revenue.

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

E. Cash and Investments

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

During fiscal year 2018, investments were limited to Federal Home Loan Mortgage Corporation bonds, Federal National Mortgage Association bonds, Federal Farm Credit Bank Funding Corporation bonds, Negotiable certificates of deposit, commercial paper, money market, and STAR Ohio. Except for nonparticipating investment contracts, investments are reported at fair value. Nonparticipating investment contracts such as nonnegotiable certificates of deposit and repurchase agreements are reported at cost.

During the year 2018, the School District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants.* The School 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.

For the fiscal year 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding $25 million. STAR Ohio reserves the right to limit the transaction to $100 million, requiring the excess amount to be transacted the following business day(s), but only to the $100 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2018 amounted to $166,850, which includes $66,097 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as "equity in pooled cash and investments." Investments with an original maturity of more than three months that are not made from the pool are reported as "investments."

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the dates received. The School District maintains a capitalization threshold of $5,000. The School District does not possess any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets is not capitalized.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Land Improvements	5 - 30 years
Buildings and Improvements	30 - 50 years
Furniture and Equipment	7 - 20 years
Vehicles	10 - 20 years

H. <u>Interfund Balances</u>

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

I. <u>Compensated Absences</u>

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

Sick leave benefits are accrued as a liability using the vesting payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments. The entire compensated absences liability is reported on the government-wide financial statements.

For the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated leave are paid.

J. <u>Pension and Other Postemployment Benefits (OPEB)</u>

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pension/OPEB, and pension/OPEB expense; information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net positon 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.

K. Accrued Liabilities and Long-term Obligations

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

L. Bond Premiums

Bond premiums are recorded as another financing source on the governmental fund statements. On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bond using the straight line method, which approximates the bonds outstanding method. Bond premiums are presented as an increase of the face amount of the bonds payable.

M. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. At June 30, 2018, there was no net position restricted by enabling legislation.

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

N. Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* the School District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The classifications are as follows:

Nonspendable – The nonspendable fund balance category 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" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

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 resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

The School District applies restricted resources first when expenditures are 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 could be used.

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are charges for its employee self-insurance program. Operating expenses are necessary costs incurred to provide services that are the primary activity of the fund. All revenues and expenses not meeting these definitions are reported as non-operating.

P. Interfund Activity

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

Q. Estimates

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

R. Budgetary Data

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

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

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

S. Implementation of New Accounting Policies and Restatement of Net Position

For the fiscal year ended June 30, 2018, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*, 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 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 75 resulted in the inclusion of net OPEB liability and OPEB expense components on the accrual financial statements. See below for the effect on net position as previously reported.

Net Position, June 30, 2017	$	(24,091,121)
Adjustments:		
Net OPEB Liability		(12,606,637)
Deferred Outflow-Payments Subsequent to Measurement Date		90,839
Restated Net Position, July 1, 2017	$	(36,606,919)

Other than employer contributions subsequent to the measurement date, the School District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the School District.

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. These changes were incorporated in the School District's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 86 addresses the reporting and disclosure requirements of certain debt extinguishments including in-substance defeasance transactions and prepaid insurance associated with debt that is extinguished. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the School District.

NOTE 3: ACCOUNTABILITY

Deficit Fund Balances

The following funds had GAAP deficit balances at June 30, 2018:

Nonmajor Governmental Funds:		Fund Balance
IDEA Part B Fund	$	56,245
Title I Fund		3,339

These deficits were caused by the application of generally accepted accounting principles. The general fund provides transfers to cover deficit balances in other funds; however, this is when cash is needed rather than when accruals occur.

NOTE 4: FUND BALANCE

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

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

	General	Debt Service	Other Governmental Funds	Total
Restricted for:				
Debt Service	$ 0	$ 3,395,244	$ 0	$ 3,395,244
Capital Outlay	0	0	1,347,648	1,347,648
Food Service	0	0	970,117	970,117
Other Grants	0	0	34,248	34,248
Latchkey	0	0	487,217	487,217
Athletics	0	0	168,684	168,684
Auxiliary Services	0	0	107,933	107,933
Total Restricted	0	3,395,244	3,115,847	6,511,091
Committed for:				
Underground Storage	11,000	0	0	11,000
	11,000	0	0	11,000
Assigned for:				
Encumbrances:				
Instructional	223,307	0	0	223,307
Support Services	132,451	0	0	132,451
Subsequent Year Appropriations	11,296,239	0	0	11,296,239
Other Purposes	122,439	0	0	122,439
Total Assigned	11,774,436	0	0	11,774,436
Unassigned	2,035	0	(59,584)	(57,549)
Total Fund Balance	$ 11,787,471	$ 3,395,244	$ 3,056,263	$ 18,238,978

NOTE 5: BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances –Budget (Non-GAAP Budget Basis) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than restricted, committed or assigned of fund balance for (GAAP basis).

4. Some funds are included in the general fund (GAAP), but have separate legally adopted budgets.

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund:

Net Change in Fund Balance

GAAP Basis	$ 4,897,802
Net adjustments for revenue accruals	(5,021,809)
Net adjustments for expenditure accruals	(108,444)
Funds budgeted elsewhere**	14,247
Adjustments for encumbrances	(779,393)
Budget Basis	$ (997,597)

** As part of Governmental Accounting Standards Board Statement No. 54, ***Fund Balance Reporting and Governmental Fund Type Definitions,*** certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes miscellaneous trusts, uniform school supplies, rotary shared services, public school support, and underground storage.

NOTE 6: DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and marked to market daily, and that the term of the agreement must not exceed 30 days;

4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this state or its political subdivisions;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio);

7. Certain banker's acceptance and commercial paper notes for a period not to exceed two hundred and seventy days in an amount not to exceed 40% of the interim monies available for investment at any one time; and,

8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash with Fiscal Agent

The School District had $1,589,346 in cash with fiscal agent related to the Internal Service Fund.

Investments

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

Rating by S & P Global Ratings	Investment	Measurement Amount	Investment Maturities in Years (<1)	Investment Maturities in Years (1-3)	Percent of Total
	Net Asset Value (NAV):				
AAAm	STAROhio	$ 2,904,436	$ 2,904,436	$ 0	20.06%
AAAm	First American Treasury	4,385,430	4,385,430	0	30.29%
	Fair Value:				
N/A	Negotiable CD's	490,081	0	490,081	3.39%
A-1	Commercial Paper	299,211	299,211	0	2.07%
AAA	FHLMC	2,947,830	993,990	1,953,840	20.37%
AAA	FNMA	989,730	989,730	0	6.84%
AAA	FFCBFC	2,458,165	0	2,458,165	16.98%
		$ 14,474,883	$ 9,572,797	$ 4,902,086	100.00%

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the School District's recurring fair value measurements as of June 30, 2018. The School District's investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. Market indicators and industry and economic events are also monitored which could require the need to acquire further market data (Level 2 inputs).

Interest Rate Risk. Is the possibility that changes in interest rates will adversely affect the fair value of an investment. The School District's investment policy does not address limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2018, is 49 days and carries a rating of AAAm by S&P Global Ratings.

Concentration of Credit Risk. The School District places no limit on the amount that may be invested in any one issuer.

NOTE 7: PROPERTY TAXES

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2018 represents collections of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed value listed as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. 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 collections 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 in 2018 with real property taxes. Public 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 School District receives property taxes from Lorain County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2018, are available to finance fiscal year 2018 operations. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2018, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources.

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

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

	2017 Second Half Collections		2018 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	$ 815,951,650	98.13%	$ 834,357,420	98.06%
Public Utilitity Personal Property	15,573,110	1.87%	16,527,770	1.94%
	$ 831,524,760	100.00%	$ 850,885,190	100.00%
Full Tax Rate per $1,000 of assessed value	$ 57.93		$ 57.45	

NOTE 8: RECEIVABLES

Receivables at June 30, 2018 consisted of property taxes, payment in lieu of taxes, and intergovernmental. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

NOTE 9: INTERFUND ACTIVITY

Interfund Transfers

Transfers made during fiscal year 2018 were as follows:

	Transfers In	Transfers Out
General Fund	$ 0	$ 215,171
Nonmajor Governmental Funds	215,171	0
	$ 215,171	$ 215,171

These transfers were made to move unrestricted balances to support programs and projects accounted for in other funds. The general fund transferred $215,171 to the permanent improvement fund.

NOTE 10: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	$ 3,603,900	$ 0	$ 0	$ 3,603,900
Capital Assets, Being Depreciated				
Land Improvements	2,532,927	50,489	0	2,583,416
Buildings and Improvements	95,790,790	76,778	(25,858)	95,841,710
Furniture and Equipment	2,065,745	255,173	(57,283)	2,263,635
Vehicles	3,186,550	173,936	(25,555)	3,334,931
Total Capital Assets, Being Depreciated	103,576,012	556,376	(108,696)	104,023,692
Accumulated Depreciation				
Land Improvements	(595,725)	(116,499)	0	(712,224)
Buildings and Improvements	(20,943,707)	(2,061,368)	25,858	(22,979,217)
Furniture and Equipment	(1,080,258)	(187,419)	54,983	(1,212,694)
Vehicles	(2,676,935)	(84,975)	25,555	(2,736,355)
Total Accumulated Depreciated	(25,296,625)	(2,450,261)	106,396	(27,640,490)
Total Capital Assets Being Depreciated, Net	78,279,387	(1,893,885)	(2,300)	76,383,202
Governmental Activities, Capital Assets, Net	$ 81,883,287	$ (1,893,885)	$ (2,300)	$ 79,987,102

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$ 1,940,444
Special	1,099
Support Services:	
Pupils	2,129
Instructional Staff	24,782
Board	10,122
Administration	18,527
Fiscal	310
Operations and Maintenance of Plant	70,665
Pupil Transportation	108,464
Central	2,728
Operation of Non-Instructional Services:	
Food Service Operation	11,230
Community Services	7,479
Extracurricular Activities	252,282
Total Depreciation	$ 2,450,261

NOTE 11: LONG-TERM OBLIGATIONS

The original issue date, interest rate, original issuance and date of maturity for each of the School District's long-term obligations follow:

	Original Issue Date	Interest Rate	Original Issue Amount	Date of Maturity
General Obligation Bonds:				
School Improvement Capital Appreciation	2003	10.49% - 10.80%	$ 120,000	12/01/18
School Improvement Refunding Capital Appreciation	2004	17.62% - 17.93%	190,000	12/01/17
School Improvement Refunding				
Serial and Term	2007	4.00% - 4.50%	12,329,999	12/01/29
Capital Appreciation	2007	17.43%	119,991	12/01/20
School Improvement Refunding Taxable Serial	2013B	.40% - 4.00%	3,260,000	12/01/20
School Improvement				
Serial and Term	2013A	2.00% - 3.00%	33,945,000	12/01/41
Capital Appreciation	2013A	2.53% - 17.22%	3,073,980	12/01/30
School Improvement Refunding				
Serial and Term	2014	1.00% - 4.00%	9,000,000	12/01/29
Capital Appreciation	2014	2.00%	134,895	12/01/21
School Improvement Refunding				
Serial and Term	2016	1.00% - 4.00%	7,730,000	12/01/29

The original amount of bonds issued in 2003 was $14,950,000. The general obligation bonds included serial and capital appreciation bonds. The serial bonds have matured.

The original amount of bonds issued in 2004 was $6,540,000. The general obligation bonds included serial and capital appreciation bonds. The serial bonds and capital appreciation bonds have matured.

During 2013, the School District issued $3,260,000 of general obligation refunding bonds to provide resources to purchase US government securities that were placed in an escrow account for the purpose of generating resources for all future debt service payments. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities of the statement of net position.

During 2015, the School District advance refunded portions of certain general obligation bonds issued in 2006 with a new general obligation bond issue. The School District issued $9,134,985 of general obligation school refunding bonds to provide resources to purchase U.S. government securities that were placed in escrow for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the financial statements. The advance refunding was undertaken to reduce total debt service payments over the 22 years by $1,346,018 and to obtain an economic gain of $147,940.

The School District defeased 1996 general obligation bonds in 2004, in 2007 defeased 2000 and 2003 general obligation bonds, by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds and in 2013 defeased 2004 refunding general obligation bonds by placing the proceeds of the new bonds in an escrow fund. Accordingly, the trust/escrow fund account assets and liability for the defeased bonds are not included in the School District's financial statements. At June 30, 2018, $20,745,000 of bonds outstanding are considered to be defeased.

During fiscal year 2017, the School District issued $7,730,000 of school improvement refunding bonds. The bond proceeds were used to retire the 2007 School Improvement Refunding and the 2006 School Improvement Bond. The bonds were issued with a premium of $988,859. Interest payments are due on June 1 and December 1 of each year. The final maturity stated on the issue is December 1, 2029.

The issuance resulted in a difference (savings) between the cash flows required to service the old debt and the cash flows required to service the new debt of $1,433,693. The issuance resulted in an economic gain of $1,299,216.

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Changes in the School District's long-term obligations during fiscal year 2018 were as follows:

	Restated Balance 6/30/17	Additions	Reductions	Refunding	Balance 6/30/18	Amounts Due in One Year
Governmental Activities:						
General Obligation Bonds:						
School Improvement Bonds - 2003						
Capital Appreciation Bonds	$ 225,000	$ 0	$ 105,000	0	$ 120,000	$ 120,000
Accretion on Capital Appreciation Bonds	708,998	72,521	360,000	0	421,519	421,519
Unamortized Premium	252,313	0	126,157	0	126,156	0
Total School Improvement Refunding Bonds - 2003	1,186,311	72,521	591,157	0	667,675	541,519
School Improvement Refunding Bonds - 2004						
Capital Appreciation Bonds	90,000	0	90,000	0	0	0
Accretion on Capital Appreciation Bonds	735,271	59,729	795,000	0	0	0
Total School Improvement Refunding Bonds - 2004	825,271	59,729	885,000	0	0	0
School Improvement Refunding Bonds - 2007						
Capital Appreciation Bonds	119,990	0	0	0	119,990	0
Accretion on Capital Appreciation Bonds	560,331	123,776	0	0	684,107	0
Total School Improvement Bonds - 2007	680,321	123,776	0	0	804,097	0
School Improvement Bond - 2013						
Serial Bond	3,000,000	0	5,000	0	2,995,000	910,000
School Improvement Refunding Bonds - 2013						
Serial Bonds	33,915,000	0	10,000	0	33,905,000	10,000
Capital Appreciation Bonds	3,073,980	0	0	0	3,073,980	0
Accretion on Capital Appreciation Bonds	756,877	222,054	0	0	978,931	0
Unamortized Premium	2,263,257	0	94,302	0	2,168,955	0
Total School Improvement Refunding Bonds - 2013	40,009,114	222,054	104,302	0	40,126,866	10,000
School Improvement Refunding Bonds - 2014						
Serial Bonds	8,880,000	0	60,000	0	8,820,000	60,000
Capital Appreciation Bonds	134,985	0	0	0	134,985	0
Accretion on Capital Appreciation Bonds	78,936	43,261	0	0	122,197	0
Unamortized Premium	732,859	0	43,109	0	689,750	0
Total School Improvement Refunding Bonds - 2014	9,826,780	43,261	103,109	0	9,766,932	60,000
School Improvement Refunding Bonds - 2016						
Serial Bonds	7,630,000	0	850,000	0	6,780,000	880,000
Unamortized Premium	918,226	0	70,633	0	847,593	0
Total School Improvement Refunding Bonds - 2016	8,548,226	0	920,633	0	7,627,593	880,000
Total General Obligation Bonds	64,076,023	521,341	2,609,201	0	61,988,163	2,401,519
Net Pension Liability:						
Pension	62,099,459	0	16,814,805	0	45,284,654	0
OPEB	12,606,637	0	2,372,373	0	10,234,264	0
Total Net Pension Liability	74,706,096	0	19,187,178	0	55,518,918	0
Other Long-term Obligations:						
Compensated Absences	3,417,630	402,805	150,429	0	3,670,006	174,931
Capital Leases	256,282	0	83,148	0	173,134	85,407
Total Governmental Activities	$ 142,456,031	$ 924,146	$ 22,029,956	$ 0	$ 121,350,221	$ 2,661,857

The bonds payable and the capital lease will be repaid from the Debt Service Fund and Permanent Improvement Fund, respectively. The compensated absences will be repaid from the funds from which employees' salaries are paid. There is no repayment schedule for the net pension liability and net OPEB liability; however, employer pension and OPEB contributions are primarily made from the General Fund. For additional information related to the net pension liability and net OPEB liability see Notes 14 and 15.

Debt service requirements, including principal and interest, to retire bonds payable at June 30, 2018, consisted of:

	General Obligation Bonds			Capital Appreciation Bonds			Total		
Fiscal Year Ending June 30,	Principal	Interest	Total	Principal	Accretion	Total	Principal	Interest/ Accretion	Total
2019	$ 1,860,000	$ 1,868,527	$ 3,728,527	$ 120,000	$ 445,000	$ 565,000	$ 1,980,000	$ 2,313,527	$ 4,293,527
2020	1,665,000	1,816,801	3,481,801	86,598	648,402	735,000	1,751,598	2,465,203	4,216,801
2021	2,115,000	1,764,474	3,879,474	33,393	301,607	335,000	2,148,393	2,066,081	4,214,474
2022	585,000	1,727,401	2,312,401	551,801	458,199	1,010,000	1,136,801	2,185,600	3,322,401
2023	1,185,000	1,703,274	2,888,274	378,565	121,435	500,000	1,563,565	1,824,709	3,388,274
2024-2028	6,600,000	7,881,974	14,481,974	2,032,429	1,802,561	3,834,990	8,632,429	9,684,535	18,316,964
2029-2033	10,300,000	6,370,425	16,670,425	246,169	3,928,838	4,175,007	10,546,169	10,299,263	20,845,432
2034-2038	15,445,000	3,611,024	19,056,024	0	0	0	15,445,000	3,611,024	19,056,024
2039-2043	12,745,000	892,189	13,637,189	0	0	0	12,745,000	892,189	13,637,189
	$ 52,500,000	$ 27,636,089	$ 80,136,089	$ 3,448,955	$ 7,706,042	$ 11,154,997	$ 55,948,955	$ 35,342,131	$ 91,291,086

NOTE 12: CAPITAL LEASES – LESSEE DISCLOSURE

The School District has entered into capitalized leases for five buses. The leases meet the criteria of a capital lease since they transfer benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds.

Equipment acquired by lease has been capitalized in the government wide financial statements in the amount of $427,340, which is equal to the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation was $159,362 as of June 30, 2018, leaving a current book value of $267,978.

Future minimum lease payments are as follows:

Year Ending June 30,	Lease Payment
2019	$ 90,109
2020	90,110
Total Minimum Lease Payments	180,219
Less: Amount Representing Interest	7,085
Present Value of Minimum Lease Payments	$ 173,134

NOTE 13: RISK MANAGEMENT

Property and Liability

The School District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2018, the School District contracted with Schools of Ohio Risk Sharing Authority (SORSA) for their insurance needs. The plan covered a liability aggregate limit of $17,000,000. Vehicles were covered at a $15,000,000 combined single limit liability. Settled claims have not exceeded this commercial coverage in any of the past three years and there has not been a significant reduction in coverage from the prior year.

Performance bonds are maintained for the Superintendent and Treasurer. The bond for the Treasurer is held by Hartford Plaza in the amount of $25,000. The Superintendent's bond is held by Cincinnati Insurance Company in the amount of $20,000.

Worker's Compensation

The School District participates in the Ohio Bureau of Workers Compensation (BWC). During fiscal year 2018, the School District was involved with Comp Management Health Systems for both Third Party Administrator and Managed Care Organization services.

Employee Medical Benefits

The School District participates in the Great Lakes Council of Governments (the Council), to process and pay health benefit claims incurred by its members. The Council contracted with a third party administrator, Medical Mutual Services, LLC for the year ended June 30, 2018. Payments are made by members to the Council for monthly health insurance premiums, monthly stop-loss premiums, and administrative charges. The Fiscal Officer approves monthly payments to the third party administrators for actual insurance claims processed, stop–loss premiums and administrative charges incurred on behalf of the Council members. If the members aggregate contributions less expenses cause it to have a negative cash balance, the Council shall direct the Fiscal Agent to promptly notify in writing each member of any additional funds necessary to correct the deficiency. Whereupon each Member shall appropriate (pursuant to Chapter 5705 of the Revised Code) the amount stated in that notice and remit the same to the Fiscal Agent within the time periods determined by the Council. The Council employs reinsurance agreements (stop-loss coverage) to reduce its risk that large losses may be incurred on medical claims. This allows the Council to recover a portion of losses on claims from re-insurers, although it does not discharge their primary liability.

As of June 30, 2018, claims outstanding were $504,182. The liability is the School District's best estimate based on available information. Changes in claims activity for fiscal years ended June 30, 2017 and 2018 are as follows:

	Balance Beginning of Year	Current Year Claims	Claims Payments	Balance End of Year
2017	$ 437,920	$ 3,830,700	$ 3,907,889	$ 360,731
2018	$ 360,731	$ 5,598,080	$ 5,454,629	$ 504,182

NOTE 14: DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first 30 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.

When a benefit recipient has received benefits for 12 months, an annual COLA is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a three percent simple annual COLA. For those retiring after January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at three percent.

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

The School District's contractually required contribution to SERS was $748,736 for fiscal year 2018. Of this amount, $57,394 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School 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' 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 Web site at www.strsoh.org.

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

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 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 has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, plan members were required to contribute 14 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was $2,564,596 for fiscal year 2018. Of this amount, $437,116 is reported as an intergovernmental payable.

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

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 independent actuarial valuation as of that date. The School District's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the Net Pension Liability:			
Current Measurement Date	0.15980040%	0.15043827%	
Prior Measurement Date	0.15639830%	0.15132353%	
Change in Proportionate Share	0.00340210%	-0.00088526%	
Proportionate Share of the Net Pension Liability	$ 9,547,721	$ 35,736,933	$ 45,284,654
Pension Expense	$ (322,879)	$ (15,441,285)	$ (15,764,164)

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in the School District's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

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At June 30, 2018 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	$ 410,901	$ 1,379,992	$ 1,790,893
Changes of Assumptions	493,719	7,816,060	8,309,779
Changes in Proportion and Differences between School District Contributions and Proportionate Share of Contributions	419,441	1,647,270	2,066,711
School District Contributions Subsequent to the Measurement Date	748,736	2,564,596	3,313,332
Total Deferred Outflows of Resources	$ 2,072,797	$ 13,407,918	$ 15,480,715
Deferred Inflows of Resources			
Differences between Expected and Actual Experience	$ 0	$ 288,026	$ 288,026
Net Difference between Projected and Actual Earnings on Pension Plan Investments	45,322	1,179,360	1,224,682
Changes in Proportion and Differences between School District Contributions and Proportionate Share of Contributions	0	244,983	244,983
Total Deferred Inflows of Resources	$ 45,322	$ 1,712,369	$ 1,757,691

$3,313,332 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$ 585,734	$ 2,175,161	$ 2,760,895
2020	731,034	3,779,501	4,510,535
2021	184,549	2,613,231	2,797,780
2022	(222,578)	563,060	340,482
	$ 1,278,739	$ 9,130,953	$ 10,409,692

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 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 pension liability in the latest actuarial valuation, prepared as of June 30, 2017, are presented below:

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

Mortality rates among active members were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates and 110 percent of female rates. Mortality among 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 actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the most recent actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

The long-term return expectation for the Pension Plan Investments has been determined by 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 average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US 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 earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the School District's proportionate share of 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%)
School District's Proportionate Share of the Net Pension Liability	$ 13,249,755	$ 9,547,721	$ 6,446,512

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
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	0.00 percent effective July 1, 2017

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.

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.

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

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

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

**Ten year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the 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 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 payments to determine the total pension liability as of June 30, 2017.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School District's proportionate share of the net pension liability as of June 30, 2017, calculated using the current period discount rate assumption of 7.45 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's Proportionate Share of the Net Pension Liability	$ 51,227,678	$ 35,736,933	$ 22,688,303

Assumption Changes since the Prior Measurement Date
The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Benefit Term Changes since the Prior Measurement Date
Effective July 1, 2017, the COLA was reduced to zero.

NOTE 15 – DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 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 School District's surcharge obligation was $92,081.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was $119,812 for fiscal year 2018. Of this amount $94,207 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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

	SERS	STRS	Total
Proportion of the Net OPEB Liability			
Current Measurement Date	0.16263580%	0.15043827%	
Prior Measurement Date	0.15835890%	0.15132353%	
Change in Proportionate Share	0.00427690%	-0.00088526%	
Proportionate Share of the Net OPEB Liability	$ 4,364,718	$ 5,869,546	$ 10,234,264
OPEB Expense	$ 268,205	$ (1,797,832)	$ (1,529,627)

At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	$ 0	$ 338,827	$ 338,827
Changes in Proportionate Share and Differences between School District Contributions and Proportionate Share of Contributions	99,252	0	99,252
School District Contributions Subsequent to the Measurement Date	119,812	0	119,812
Total Deferred Outflows of Resources	$ 219,064	$ 338,827	$ 557,891
Deferred Inflows of Resources			
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	$ 11,526	$ 250,878	$ 262,404
Changes of Assumptions	414,189	472,812	887,001
Changes in Proportionate Share and Differences between School District Contributions and Proportionate Share of Contributions	0	40,581	40,581
Total Deferred Inflows of Resources	$ 425,715	$ 764,271	$ 1,189,986

$119,812 reported as deferred outflows of resources related to OPEB resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$ (116,990)	$ (91,814)	$ (208,804)
2020	(116,990)	(91,814)	(208,804)
2021	(89,603)	(91,814)	(181,417)
2022	(2,880)	(91,812)	(94,692)
2023	0	(29,094)	(29,094)
Thereafter	0	(29,096)	(29,096)
	$ (326,463)	$ (425,444)	$ (751,907)

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 investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate	
Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Prior Measurement Date	2.98 percent, net of plan investment expense, including price inflation
Medical Trend Assumption	
Medicare	5.50 percent - 5.00 percent
Pre-Medicare	7.50 percent - 5.00 percent

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

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

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

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

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
School District's Proportionate Share of the Net OPEB Liability	$ 5,270,952	$ 4,364,718	$ 3,646,748

	1% Decrease	Current Trend Rate	1% Increase
School District's Proportionate Share of the Net OPEB Liability	$ 3,541,641	$ 4,364,718	$ 5,454,073

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	6.00 percent to 11.00 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.

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:

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

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

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

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School District's Proportionate Share of the Net OPEB Liability	$ 7,879,772	$ 5,869,546	$ 4,280,811

	1% Decrease	Current Trend Rate	1% Increase
School District's Proportionate Share of the Net OPEB Liability	$ 4,077,909	$ 5,869,546	$ 8,227,550

NOTE 16: JOINTLY GOVERNED ORGANIZATIONS

Connect

Connect, is a jointly governed computer service bureau known as an Information Technology Center (ITC) that was formed for the purpose of providing data services to its members. Major areas of service provided by Connect include accounting, payroll, inventory, career guidance services, handicapped student tracking, pupil scheduling, attendance reporting and grade reporting. The Education Service Center of Cuyahoga County continues to serve as the fiscal agent of Connect. Participating school districts pay for services provided by the ITC based upon a per pupil charge dependent upon the software packages and services used. In fiscal year 2018, the School District paid $110,025 to Connect. Financial information can be obtained by contacting the Treasurer of the fiscal agent at 6393 Oak Tree Boulevard, Suite 377, Independence, Ohio 44131.

Lorain County Joint Vocational School District

The Lorain County Joint Vocational School District is a separate body politic and corporate, established by the Ohio Revised Code to provide for the vocational and special education needs of the students. Its Board of Education consists of representatives from the board of each participating school district. The Board is responsible for approving its own budgets, appointing personnel, and accounting and financing related activities. Avon Local School District students may attend the vocational school. Each school district's control is limited to its representation on the board. Financial information can be obtained by contacting the Treasurer at the Lorain County Joint Vocational School District located at 15181 State Route 58, Oberlin, Ohio 44074.

Ohio Schools Council

The Ohio Schools Council (Council) is a jointly governed organization among eighty-three school districts. The Council was formed to offer supplies and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee for the services provided. The Council's Board consists of seven superintendents of the participating districts whose term rotates every fiscal year. The degree of control exercised by any school district is limited to its representation on the Board. In fiscal year 2018, the School District paid $99,118 for participation in the prepaid natural gas program.

The School District participates in the Council's electric purchase program.

The School District participates in the Council's prepaid natural gas program which was implemented during fiscal year 2011. This program allows school districts to purchase natural gas at reduced rates, if the school districts will commit to participating for a twelve year period. The participants make monthly payments based on estimated usage. Each June these estimated payments are compared to their actual usage and any necessary adjustments are made.

The School District of Hamilton, a municipal corporation and political subdivision duly organized and existing under the laws of the State of Ohio, issued $89,450,000 in debt to purchase twelve years of natural gas from CMS Energy Corporation for the participants. The participating school districts are not obligated in any manner for this debt. If a participating school district terminates its agreement, the district is entitled to recover that amount, if any, of its contributions to the operating fund which are not encumbered for its share of program administrative costs. Financial information can be obtained by contacting the Executive Secretary at the Ohio Schools Council at 6133 Rockside Road, Independence, Ohio 44131.

Great Lakes Council of Governments

The Great Lakes Council of Governments, (the Council) 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 as defined by Chapter 167 of the Ohio Revised Code. The Council is a claims-servicing pool as defined by Government Accounting Standards Board Statement No.10 as amended by GASB statement 30. It was formed to carry out a cooperative program for the provisions and administration of health care benefits for member employees in accordance with the Council-by-laws. The Council is directed by a Governing Board, consisting of the Superintendents or designee of the participating school districts. As of June 30, 2018, there were three participating members of the Council.

The Council is committed to providing its member districts with the advantages of a large buying cooperative, while maintaining control by the local district leadership. Underwriting considerations are of utmost importance in reviewing new membership applications, as the Council is committed to protecting the long -term financial interests of its core members, and will not admit a new member that will adversely impact premiums and claims payments.

Members pay monthly premiums (program costs) that are placed in a common fund from which eligible claims are paid for member employees and their covered dependents. Claims are paid for all participants regardless of claims flow. The Board of Directors annually estimate and set the amount of funds necessary in order to have funds available to pay all claims which could be made under the Health Benefits Plan by covered persons which would not be paid aggregate and specific stop-loss insurance coverage, and said amounts will be placed in a reserve fund.

The Council issues its own financial statements. Fiscal information can be obtained by contacting the Treasurer of the Olmsted Falls City School District, Fiscal Officer, Great Lakes Council of Government, 26937 Bagley Road, Olmsted Falls, Ohio 44138.

NOTE 17: CONTINGENCIES

Grants

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

Litigation

The School District is not party to any claims or lawsuits that would, in the School District's opinion, have a material effect of the basic financial statements.

School Foundation

School district Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, ODE has finalized the impact of enrollment adjustments to the June 30, 2018 Foundation funding for the School District. The financial statement impact was determined to be immaterial and is not reported as an asset or liability of the School District.

NOTE 18: SET-ASIDES

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by 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 fiscal year end set aside amounts for capital acquisition. Disclosure of this information is required by State statute.

	Capital Improvement Reserve
Set-Aside Restricted Balance, June 30, 2017	$ 0
Current Year Set-Aside Requirement	766,494
Current Year Offset	(973,206)
Total	$ (206,712)
Balance Carried Forward to Fiscal Year 2019	$ 0
Set-Aside Restricted Balance June 30, 2018	$ 0

Although the School District had offsets during the fiscal year that reduced the set aside amount to below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirements of future years. This negative balance is therefore not presented as being carried forward to future years.

NOTE 19: COMMITMENTS

The School District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed or assigned classifications of fund balance.

At fiscal year end, the School District's commitments for encumbrances in the governmental funds were as follows:

Fund	Amount
General	$ 357,043
Nonmajor Governmental	21,638
	$ 378,681

NOTE 20: TAX ABATEMENTS

School District property taxes were reduced under Enterprise Zone agreements entered into by an overlapping government – the City of Avon. As a result of the agreements, the School District had $897,467 in taxes abated for fiscal year 2018.

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Avon Local School District
Lorain County, Ohio
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
Last Five Fiscal Years (1)

	2018	2017	2016	2015	2014
School Employees Retirement System (SERS)					
School District's Proportion of the Net Pension Liability	0.15980040%	0.15639830%	0.14782200%	0.14687600%	0.14687600%
School District's Proportionate Share of the Net Pension Liability	$ 9,547,721	$ 11,446,912	$ 8,434,867	$ 7,433,311	$ 8,734,244
School District's Covered Payroll	$ 5,298,207	$ 5,290,686	$ 6,133,991	$ 4,130,512	$ 3,946,040
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	180.21%	216.36%	137.51%	179.96%	221.34%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%
State Teachers Retirement System (STRS)					
School District's Proportion of the Net Pension Liability	0.15043827%	0.15132353%	0.14470975%	0.14056987%	0.14056987%
School District's Proportionate Share of the Net Pension Liability	$ 35,736,933	$ 50,652,547	$ 39,993,542	$ 34,191,457	$ 40,728,640
School District's Covered Payroll	$ 16,337,129	$ 15,095,921	$ 15,912,014	$ 14,636,462	$ 13,911,054
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	218.75%	335.54%	251.34%	233.60%	292.78%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

See accompanying notes to the required supplementary information.

Avon Local School District
Lorain County, Ohio
Required Supplementary Information
Schedule of the School District's Contributions - Pension
Last Ten Fiscal Years

	2018	2017	2016	2015
School Employees Retirement System (SERS)				
Contractually Required Contribution	$ 748,736	$ 741,749	$ 740,696	$ 808,460
Contributions in Relation to the Contractually Required Contribution	(748,736)	(741,749)	(740,696)	(808,460)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
School District's Covered Payroll	$ 5,546,193	$ 5,298,207	$ 5,290,686	$ 6,133,991
Pension Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%
State Teachers Retirement System (STRS)				
Contractually Required Contribution	$ 2,564,596	$ 2,287,198	$ 2,113,429	$ 2,227,682
Contributions in Relation to the Contractually Required Contribution	(2,564,596)	(2,287,198)	(2,113,429)	(2,227,682)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
School District's Covered Payroll	$ 18,318,543	$ 16,337,129	$ 15,095,921	$ 15,912,014
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%

2014		2013		2012		2011		2010		2009	
$	572,489	$	546,132	$	483,865	$	455,180	$	491,485	$	346,855
	(572,489)		(546,132)		(483,865)		(455,180)		(491,485)		(346,855)
$	0	$	0	$	0	$	0	$	0	$	0
$	4,130,512	$	3,946,040	$	3,597,509	$	3,621,161	$	3,629,874	$	3,524,949
	13.86%		13.84%		13.45%		12.57%		13.54%		9.84%
$	1,902,740	$	1,808,437	$	1,617,680	$	1,721,042	$	1,689,680	$	1,580,750
	(1,902,740)		(1,808,437)		(1,617,680)		(1,721,042)		(1,689,680)		(1,580,750)
$	0	$	0	$	0	$	0	$	0	$	0
$	14,636,462	$	13,911,054	$	12,443,692	$	13,238,785	$	12,997,538	$	12,159,615
	13.00%		13.00%		13.00%		13.00%		13.00%		13.00%

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Avon Local School District
Lorain County, Ohio
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net OPEB Liability
Last Two Fiscal Years (1)

	2018	2017
School Employees Retirement System (SERS)		
School District's Proportion of the Net OPEB Liability	0.16263580%	0.15835890%
School District's Proportionate Share of the Net OPEB Liability	$ 4,364,718	$ 4,513,815
School District's Covered Payroll	$ 5,298,207	$ 5,290,686
School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	82.38%	85.32%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%
State Teachers Retirement System (STRS)		
School District's Proportion of the Net OPEB Liability	0.15043827%	0.15132353%
School District's Proportionate Share of the Net OPEB Liability	$ 5,869,546	$ 8,092,822
School District's Covered Payroll	$ 16,337,129	$ 15,095,921
School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	35.93%	53.61%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fisca

See accompanying notes to the required supplementary information.

Avon Local School District
Lorain County, Ohio
Required Supplementary Information
Schedule of the School District's Contributions - OPEB
Last Ten Fiscal Years

	2018	2017	2016	2015
School Employees Retirement System (SERS)				
Contractually Required Contribution (1)	$ 119,812	$ 90,839	$ 79,557	$ 32,684
Contributions in Relation to the Contractually Required Contribution	(119,812)	(90,839)	(79,557)	(32,684)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
School District's Covered Payroll	$ 5,546,193	$ 5,298,207	$ 5,290,686	$ 6,133,991
OPEB Contributions as a Percentage of Covered Payroll (1)	2.16%	1.71%	1.50%	0.53%
State Teachers Retirement System (STRS)				
Contractually Required Contribution	$ 0	$ 0	$ 0	$ 0
Contributions in Relation to the Contractually Required Contribution	0	0	0	0
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
School District's Covered Payroll	$ 18,318,543	$ 16,337,129	$ 15,095,921	$ 15,912,014
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%

(1) Includes surcharge

2014		2013		2012		2011		2010		2009	
$	5,783	$	29,201	$	26,981	$	27,132	$	27,587	$	26,437
	(5,783)		(29,201)		(26,981)		(27,132)		(27,587)		(26,437)
$	0	$	0	$	0	$	0	$	0	$	0
$	4,130,512	$	3,946,040	$	3,597,509	$	3,621,161	$	3,629,874	$	3,524,949
	0.14%		0.74%		0.75%		0.75%		0.76%		0.75%
$	146,365	$	139,111	$	124,437	$	132,388	$	129,975	$	121,596
	(146,365)		(139,111)		(124,437)		(132,388)		(129,975)		(121,596)
$	0	$	0	$	0	$	0	$	0	$	0
$	14,636,462	$	13,911,054	$	12,443,692	$	13,238,785	$	12,997,538	$	12,159,615
	1.00%		1.00%		1.00%		1.00%		1.00%		1.00%

Note 1 - Net Pension Liability

Changes in Assumptions - SERS

For fiscal year 2017, the SERS Board adopted the following assumption changes:

- Assumed rate of inflation was reduced from 3.25 percent to 3.00 percent
- Payroll Growth Assumption was reduced from 4.00 percent to 3.50 percent
- Assumed real wage growth was reduced from 0.75 percent to 0.50 percent
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to the following:
  - RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females.
- Mortality among service retired members, and beneficiaries was updated to the following:
  - RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates.
- Mortality among disable member was updated to the following:
  - 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.

Changes in Benefit Terms - SERS

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.50 percent with a floor of zero percent beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Changes in Assumptions – STRS

For fiscal year 2018, the Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Changes in Benefit Terms - STRS

Effective for fiscal year 2018, the cost-of-living adjustment (COLA) was reduced to zero.

Note 2 - Net OPEB Liability

Changes in Assumptions – SERS

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:	
Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

Changes in Assumptions – STRS

For fiscal year 2018, 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.

Also for fiscal year 2018, 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.

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AVON LOCAL SCHOOL DISTRICT
LORAIN COUNTY

SCHEDULE OF EXPEDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

FEDERAL GRANTOR ***Pass Through Grantor*** **Program / Cluster Title**	**Federal CFDA Number**	**Pass Through Entity Identifying Number**	**Total Federal Expenditures**
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through Ohio Department of Education			
Child Nutrition Cluster:			
School Breakfast Program (SBP)	10.553	N/A	26,169
National School Lunch Program (NSLP)	10.555	N/A	197,129
National School Lunch Program (NSLP) - Non-Cash	10.555	N/A	84,693
Total Child Nutrition Cluster			307,991
Total U.S. Department of Agriculture			307,991
U.S. DEPARTMENT OF EDUCATION			
Passed Through Ohio Department of Education			
Title I Grants to Local Education Agencies (Title I, Part A of the ESEA) - 2017	84.010	N/A	34,217
Title I Grants to Local Education Agencies (Title I, Part A of the ESEA) - 2018	84.010	N/A	169,789
Total Title I Grants to Local Education Agencies (Title I, Part A of the ESEA)			204,006
Special Education Cluster (IDEA):			
Special Education - Grant to States (IDEA, Part B) - 2017	84.027	N/A	53,699
Special Education - Grant to States (IDEA, Part B) - 2018	84.027	N/A	587,713
Total Special Education Cluster			641,412
Title III, Part A, English Language Acquisition State Grants - 2018	84.365	N/A	18,502
Title II, Part A, Improving Teacher Quality State Grants - 2017	84.367	N/A	11,445
Title II, Part A, Improving Teacher Quality State Grants - 2018	84.367	N/A	52,764
Total Improving Teacher Quality State Grants (Title II-A)			64,209
Title IV, Part A, Student Support and Academic Enrichment Program - 2018	84.424	N/A	1,500
Total U.S. Department of Education			929,629
Total Expenditures of Federal Awards			**$1,237,620**

The accompanying notes are an integral part of this schedule.

AVON LOCAL SCHOOL DISTRICT
LORAIN COUNTY

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2018

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Avon Local School District (the District) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

NOTE C - INDIRECT COST RATE

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE E – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at entitlement value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

NOTE F - MATCHING REQUIREMENTS

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds

NOTE G - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amounts from 2017 to 2018 programs:

Program Title	CFDA Number	Amount Transferred
Special Education – Grants to States (IDEA, Part B)	84.027	$35,268

CFDA – Catalog of Federal Domestic Assistance.

N/A – Not applicable.

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

Avon Local School District
Lorain County
35573 Detroit Road
Avon, Ohio 44011

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Avon Local School District, Lorain County, (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 March 26, 2019, wherein we noted the District adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

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 2018-001 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

District's Response to Findings

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

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 communication is not suitable for any other purpose.

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

March 26, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Avon Local School District
Lorain County
35573 Detroit Road
Avon, Ohio 44011

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Avon Local School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Avon Local School District's major federal program for the year ended June 30, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the Avon Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect the major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

March 26, 2019

AVON LOCAL SCHOOL DISTRICT
LORAIN COUNTY

SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2018

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unmodified
(d)(1)(ii)	**Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?**	Yes
(d)(1)(ii)	**Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material noncompliance at the financial statement level (GAGAS)?**	No
(d)(1)(iv)	**Were there any material internal control weaknesses reported for major federal programs?**	No
(d)(1)(iv)	**Were there any significant deficiencies in internal control reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unmodified
(d)(1)(vi)	**Are there any reportable findings under 2 CFR §200.516(a)?**	No
(d)(1)(vii)	**Major Programs (list):**	Special Education Cluster: Special Education-Grants to States / CFDA #84.027
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 750,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee under 2 CFR §200.520?**	No

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

1. **Accounting and Financial Reporting**

Finding Number	2018-001

MATERIAL WEAKNESS

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

The following errors and subsequent corrections were made to the financial statements, footnotes and accounting records by Management:

- The District improperly calculated the governmental activities deferred outflows of resources, deferred inflows of resources, pension expense, and net position related to the net pension liability for the School Employees Retirement System (SERS). Deferred outflows of resources was overstated by $847,199, deferred inflows of resources was overstated by $53,471, pension expense was overstated by $975,772 and the net position effect was understated by $1,769,500.
- The District improperly calculated the governmental activities deferred outflows of resources, deferred inflows of resources, pension expense, and net position related to the net pension liability for the State Teachers Retirement System (STRS). Deferred outflows of resources was overstated by $3,733,792, deferred inflows of resources was overstated by $1,368,287, pension expense was overstated by $4,574,814 and the net position effect was understated by $6,940,319.

The errors in the District's financial statements and footnote disclosures were the result of an accumulation of errors from several years and indicate a lack of monitoring of the District's financial activity. Failure to accurately implement and monitor controls over financial reporting resulted in material errors and irregularity, which decreases the reliability of financial data.

We recommend the District establish and implement procedures to review its annual financial statements to determine the financial statements are presented in accordance with applicable accounting guidelines and principles. In addition, we recommend due care be exercised when posting entries to the financial statement preparation to prevent errors and assist in properly reflecting the District's financial condition.

Official’s Response: The School District hires an independent accounting firm to compile the financial statements, which includes the complex GASB 68 calculation. In working with them, they acknowledged an error in their work papers. The error did not result in taxpayer dollars lost or funds missing; it was a calculation error. In the future, the Treasurer will ensure additional communication and levels of review regarding the firm’s pension fund calculation.

3. FINDINGS FOR FEDERAL AWARDS

None.

AVON LOCAL SCHOOL DISTRICT
LORAIN COUNTY

CORRECTIVE ACTION PLAN
2 C.F.R. § 200.511(c)
JUNE 30, 2018

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	The School District hires an independent accounting firm to compile the financial statements, which includes the complex GASB 68 calculation. In working with them, they acknowledged an error in their work papers. The error did not result in taxpayer dollars lost or funds missing; it was a calculation error. In the future, the Treasurer will ensure additional communication and levels of review regarding the firm's pension fund calculation.	6/30/19	Katie Henes, Treasurer/CFO

MIKE LAUB
Superintendent
(440) 937-4680

www.avonlocalschools.org

KATIE HENES
Treasurer/CFO
(440) 695-0601
(440) 937-4684

AVON LOCAL SCHOOL DISTRICT
LORAIN COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
JUNE 30, 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001	Appropriations Limited by Estimated Resources - Ohio Rev. Code § 5705.39 – Material Weakness and Noncompliance Finding - The Debt Service Fund had appropriations exceeding estimated resources at the legal level of budgetary control at June 30, 2017.	Corrective Action Taken and Finding is Fully Corrected	None.

MIKE LAUB
Superintendent
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KATIE HENES
Treasurer/CFO
(440) 695-0601
(440) 937-4684

OHIO AUDITOR OF STATE
KEITH FABER

AVON LOCAL SCHOOL DISTRICT

LORAIN 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
MARCH 28, 2019