**FOXFIRE HIGH SCHOOL**
**MUSKINGUM COUNTY**

**REGULAR AUDIT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

OHIO AUDITOR OF STATE
**KEITH FABER**

**FOXFIRE HIGH SCHOOL**
**MUSKINGUM COUNTY**
**JUNE 30, 2018**

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## INDEPENDENT AUDITOR'S REPORT

Foxfire High School
Muskingum County
2805 Pinkerton Road
Zanesville, Ohio 43701

To the Board of Directors:

***Report on the Financial Statements***

We have audited the accompanying financial statements of the Foxfire High School, Muskingum County, Ohio (the High School), a component unit of the Maysville Local School District, Muskingum County, Ohio, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the High School'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 High School'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 High School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foxfire High School, Muskingum County, Ohio, as of June 30, 2018, and the changes in its financial position and its cash flows 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 14 to the basic financial statements, during the fiscal year ended June 30, 2018, the High School 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 M*anagement's Discussion and Analysis*, and Schedules of Net Pension and Other Post-employment Benefit Liabilities and Pension and Other Post-employment Benefit Contributions listed in the Table of Contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2019, on our consideration of the High School'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 High School's internal control over financial reporting and compliance.

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

February 28, 2019

The discussion and analysis of the Foxfire High School's (High School) financial performance provides an overall review of the High School's financial activities for the fiscal year ended June 30, 2018. Readers should also review the basic financial statements and notes to enhance their understanding of the High School's financial performance.

## Highlights

The High School opened for its first year of operation in fiscal year 2004 for high school age students and above who have dropped out or are at risk of dropping out of school. During fiscal year 2017, the High School began to serve students in grades four through twelve. This change was due to a change made by the Ohio Department of Education that now allows fourth through eighth grades to be served through a drop-out, recovery, and prevention school. During fiscal year 2018, the High School provided services to 358 full-time students.

## Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements.

The statement of net position and the statement of revenues, expenses, and changes in net position reflect how the High School did financially during fiscal year 2018. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the High School's net position and changes in position. The change in net position is important because it tells the reader whether the financial position of the High School has increased or decreased from the prior year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating.

All of the High School's activities are reported in a single enterprise fund.

Table 1 provides a summary of the High School's net position for 2018 compared to 2017:

**Table 1 - Net Position**

| | 2018 | 2017 | Change |
|---|---|---|---|
| Assets: | | | |
| Current and Other Assets | $1,913,727 | $1,662,603 | $251,124 |
| Capital Assets | 322,654 | 172,864 | 149,790 |
| *Total Assets* | 2,236,381 | 1,835,467 | 400,914 |
| Deferred Outflows of Resources: | | | |
| Pension | 2,158,768 | 795,422 | 1,363,346 |
| OPEB | 294,004 | 10,597 | 283,407 |
| *Total Deferred Outflows of Resources* | $2,452,772 | $806,019 | $1,646,753 |

(Continued)

**Table 1 - Net Position (Continued)**

| | 2018 | 2017 | Change |
|---|---|---|---|
| (Continued) | | | |
| Liabilities: | | | |
| Current and Other Liabilities | $551,090 | $571,400 | ($20,310) |
| Long-Term Liabilities: | | | |
| Net Pension Liability | 3,552,401 | 3,302,377 | 250,024 |
| Net OPEB Liability | 898,239 | 757,260 | 140,979 |
| Other Amounts Due in More than One Year | 76,586 | 57,031 | 19,555 |
| *Total Liabilities* | 5,078,316 | 4,688,068 | 390,248 |
| Deferred Inflows of Resources: | | | |
| Pension | 145,634 | 57,761 | 87,873 |
| OPEB | 98,127 | 0 | 98,127 |
| *Total Deferred Inflows of Resources* | 243,761 | 57,761 | 186,000 |
| Net Position: | | | |
| Net Investment in Capital Assets | 322,654 | 172,864 | 149,790 |
| Unrestricted (Deficits) | (955,578) | (2,277,207) | 1,321,629 |
| *Total Net Position* | ($632,924) | ($2,104,343) | $1,471,419 |

The net pension liability (NPL) is the largest single liability reported by the High School 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 High School adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises the 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 High School'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 High School'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 High School 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 High School'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 High School 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 ($1,357,680) to ($2,104,343).

Total assets increased by $400,914 during fiscal year 2018. This increase is mainly attributable to an increase in cash and cash equivalents in the amount of $112,674, an increase in intergovernmental receivables in the amount of $110,848, an increase in prepaids in the amount of $1,754, an increase in inventories on hand in the amount of $5,749, and an increase in capital assets in the amount of $149,790. The increase in cash and cash equivalents is primarily due to an increase in State foundation payments as a result of increased student enrollment. Student levels increased from 333 in fiscal year 2017 to 358 in fiscal year 2018. Fiscal year 2018, intergovernmental receivables increased due to increases in Title I and Title VI-B grant funding due to student enrollment increases. There was also an increase in the summer school work program funded through the Muskingum County Workforce Investment Act Ohio Means Jobs grant funding. Capital assets increased as a result of current year classroom improvements exceeding current year depreciation.

Total liabilities increased $390,248 during fiscal year 2018. The main reason for this increase is attributed to the increase in the net pension/OPEB liability in the amount of $391,003. Other amounts due in more than one year increased in the amount of $19,555 due to an increase in compensated absences which was the result of additional staff reaching ten years of service which meets the probable to retire criteria set by the High School. The $20,310 decrease in current and other liabilities is due primarily to a decrease in contracts payable and intergovernmental payables resulting from the completion of the classroom project in fiscal year 2018 and the return of grant funding which was required as of fiscal year end 2017 that did not reoccur at the end of fiscal year 2018. These decreases were offset by increases in accounts payable, accrued wages and benefits payable, and vacation benefit payable due to additional staff and additional purchasing.

Table 2 reflects the changes in net position for fiscal year ended June 30, 2018 and comparisons to fiscal year 2017.

**Table 2 - Change in Net Position**

| | 2018 | 2017 | Change |
|---|---|---|---|
| Operating Revenues: | | | |
| Foundation | $3,942,807 | $3,422,180 | $520,627 |
| Rentals | 1,035 | 0 | 1,035 |
| Charges for Services | 350,284 | 310,404 | 39,880 |
| *Total Operating Revenues* | 4,294,126 | 3,732,584 | 561,542 |
| Non-Operating Revenues: | | | |
| State and Federal Grants | 560,023 | 495,125 | 64,898 |
| Interest | 9,571 | 4,999 | 4,572 |
| Donations | 4,109 | 0 | 4,109 |
| Other Non-Operating Revenue | 54,004 | 7,057 | 46,947 |
| *Total Non-Operating Revenues* | 627,707 | 507,181 | 120,526 |
| *Total Revenues* | 4,921,833 | 4,239,765 | 682,068 |
| Operating Expenses: | | | |
| Salaries | 2,203,496 | 1,998,124 | 205,372 |
| Fringe Benefits | (250,795) | 595,686 | (846,481) |
| Purchased Services | 1,232,911 | 1,057,408 | 175,503 |
| Materials and Supplies | 234,251 | 194,460 | 39,791 |
| Depreciation | 28,894 | 18,348 | 10,546 |
| Other Operating Expenses | 1,657 | 82,135 | (80,478) |
| *Total Operating Expenses* | 3,450,414 | 3,946,161 | (495,747) |
| *Change in Net Position* | 1,471,419 | 293,604 | 1,177,815 |
| *Net Position Beginning of Year* | (2,104,343) | N/A | |
| *Net Position End of Year* | ($632,924) | ($2,104,343) | $1,471,419 |

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 $10,597 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 $32,934. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

| | |
|---|---|
| Total 2018 program expenses under GASB 75 | $3,450,414 |
| Negative OPEB expense under GASB 75 | 32,934 |
| 2018 contractually required contribution | 11,367 |
| Adjusted 2018 program expenses | 3,494,715 |
| Total 2017 program expenses under GASB 45 | 3,946,161 |
| Decrease in program expenses not related to OPEB | ($451,446) |

The largest component of the decrease in program expenses results from changes in assumptions and benefit terms related to pensions. STRS adopted certain assumption changes, including a reduction in their discount rate, and also voted to suspend cost of living adjustments (COLA). SERS also decreased their COLA assumption. (See Note 9) As a result of these changes, pension expense decreased from $281,359 in fiscal year 2017 to a negative pension expense of $707,917 for fiscal year 2018. The fiscal year 2018 negative pension expense was reflected in fringe benefits which resulted in a negative $250,795 fringe benefits operating expense on the Statement of Revenues, Expenses, and Changes in Net Position.

During fiscal year 2018, operating revenues increased in the amount of $561,542. This increase is primarily due to an increase in foundation revenue in the amount of $520,627 as a result of the increase student enrollment. The increase in charges for services was due mainly to the summer work program mentioned on page 5. Non-operating revenues increased due primarily to the increases in State and federal grant funding.

During fiscal year 2018, salaries accounted for 64 percent and purchased services accounted for 36 percent of the operating expenses. All remaining expenses accounted les then 1 percent of operating expenses.

## Budgeting

The High School is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

## Capital Assets and Debt Administration

**Capital Assets -** During fiscal year 2018, the High School had $322,654 in capital assets. See Note 4 for additional information regarding capital assets.

**Debt -** The High School did not incur any debt during fiscal year 2018**.** The net pension/OPEB liability under GASB 68 and 75 is reported as a long-term obligation that has been previously disclosed within the management's discussion and analysis. See Notes 12 for more detailed information of the High School's debt.

## Current Design

The High School is different than a traditional high school in that the High School is designated as a Drop-Out Recovery and Prevention School. It is designed to operate as an open, non-discriminatory manner where students can work at their own pace to earn a high school diploma. The High School operates under the "Care Team" philosophy by joining forces with the area social agencies in an effort to increase a student's developmental assets and eliminate the barriers to academic achievement. The High School's staff meets weekly with its "Care Team" to identify the students who are struggling, determine barriers and provide supportive services to help those students overcome their problems so they can achieve success in School.

## Contacting the High School's Financial Management

This financial report is designed to provide citizens, taxpayers, and creditors with a general overview of the High School's finances and to show the High School's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Lewis Sidwell, Treasurer, Foxfire High School, 2805 Pinkerton Road, Zanesville, Ohio 43701. You may also E-mail the treasurer at lsidwell@laca.org.

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**Foxfire High School**

*Statement of Net Position*

*June 30, 2018*

| | |
|---|---|
| **Assets:** | |
| Current Assets: | |
| Cash and Cash Equivalents | $1,624,292 |
| Accounts Receivable | 20,099 |
| Intergovernmental Receivable | 252,322 |
| Prepaids | 3,377 |
| Inventory Held for Resale | 13,112 |
| Materials and Supplies Inventory | 525 |
| *Total Current Assets* | 1,913,727 |
| Noncurrent Assets: | |
| Depreciable Capital Assets, Net | 322,654 |
| *Total Assets* | 2,236,381 |
| **Deferred Outflows of Resources:** | |
| Pension | 2,158,768 |
| OPEB | 294,004 |
| *Total Deferred Outflows of Resources* | 2,452,772 |
| **Liabilities:** | |
| Current Liabilities: | |
| Accounts Payable | 29,417 |
| Accrued Wages and Benefits Payable | 411,041 |
| Intergovernmental Payable | 87,871 |
| Vacation Benefit Payable | 22,761 |
| *Total Current Liabilities* | 551,090 |
| Long-Term Liabilities: | |
| Net Pension Liability (See Note 9) | 3,552,401 |
| Net OPEB Liability (See Note 10) | 898,239 |
| Other Amounts Due in More Than One Year | 76,586 |
| Total Long-Term Liabilities | 4,527,226 |
| *Total Liabilities* | 5,078,316 |
| **Deferred Inflows of Resources:** | |
| Pension | 145,634 |
| OPEB | 98,127 |
| *Total Deferred Inflows of Resources* | 243,761 |
| **Net Position:** | |
| Net Investment in Capital Assets | 322,654 |
| Unrestricted (Deficit) | (955,578) |
| *Total Net Position* | ($632,924) |

See accompanying notes to the basic financial statements.

**Foxfire High School**

*Statement of Revenues, Expenses, and Changes in Net Position*

*For the Fiscal Year Ended June 30, 2018*

| | |
|---|---|
| **Operating Revenues:** | |
| Foundation | $3,942,807 |
| Rentals | 1,035 |
| Charges for Services | 350,284 |
| *Total Operating Revenues* | 4,294,126 |
| **Operating Expenses:** | |
| Salaries | 2,203,496 |
| Fringe Benefits | (250,795) |
| Purchased Services | 1,232,911 |
| Materials and Supplies | 234,251 |
| Depreciation | 28,894 |
| Other Operating Expenses | 1,657 |
| *Total Operating Expenses* | 3,450,414 |
| Operating Gain | 843,712 |
| **Non-Operating Revenues:** | |
| State and Federal Grants | 560,023 |
| Interest | 9,571 |
| Donations | 4,109 |
| Other Non-Operating Revenues | 54,004 |
| *Total Non-Operating Revenues* | 627,707 |
| *Change in Net Position* | 1,471,419 |
| *Net Position Beginning of Year - Restated Note 14* | (2,104,343) |
| *Net Position End of Year* | ($632,924) |

See accompanying notes to the basic financial statements

**Foxfire High School**
*Statement of Cash Flows*
*For the Fiscal Year Ended June 30, 2018*

| | |
|---|---|
| **Increase (Decrease) in Cash and Cash Equivalents** | |
| **Cash Flows from Operating Activities:** | |
| Cash Received from Foundation | $3,942,807 |
| Cash Received from Charges for Services | 323,604 |
| Cash Received from Rentals | 1,035 |
| Cash Payments for Employee Services and Benefits | (2,943,616) |
| Cash Payments to Suppliers for Goods and Services | (1,456,673) |
| Other Operating Expenses | (77,975) |
| Other Non-Operating Revenues | 7,287 |
| *Net Cash Used for Operating Activities* | (203,531) |
| **Cash Flows from Noncapital Financing Activities:** | |
| State and Federal Grants Received | 501,629 |
| Donations | 4,109 |
| *Net Cash Provided by Noncapital Financing Activities* | 505,738 |
| **Cash Flows from Capital and Related Financing Activities** | |
| Acquisition of Capital Assets | (199,104) |
| **Cash Flows from Investing Activities:** | |
| Interest on Investments | 9,571 |
| *Net Increase in Cash and Cash Equivalents* | 112,674 |
| *Cash and Cash Equivalents Beginning of Year* | 1,511,618 |
| *Cash and Cash Equivalents End of Year* | $1,624,292 |
| **Reconciliation of Operating Gain to Net Cash Used For Operating Activities:** | |
| Operating Gain | $843,712 |
| **Adjustments to Reconcile Operating Gain to Net Cash Used For Operating Activities:** | |
| Depreciation | 28,894 |
| Non-Operating Revenues | 7,287 |
| **Changes in Assets and Liabilities:** | |
| Increase in Accounts Receivable | (450) |
| Increase in Intergovernmental Receivable | (25,386) |
| Increase in Prepaids | (1,754) |
| Increase in Inventory Held for Resale | (6,032) |
| Decrease in Materials and Supplies Inventory | 283 |
| Decrease in Deferred Outflows - Pension | 683,158 |
| Decrease in Deferred Outflows - OPEB | 65,562 |
| Increase in Accounts Payable | 15,134 |
| Increase in Accrued Wages and Benefits Payable | 60,558 |
| Increase in Vacation Benefits Payable | 1,296 |
| Decrease in Intergovernmental Payable | (76,878) |
| Increase in Compensated Absences Payable | 19,555 |
| Decrease in Deferred Inflows - Pension | (290,985) |
| Decrease in Net Pension Liability | (1,417,622) |
| Decrease in Deferred Inflows - OPEB | (27,013) |
| Decrease in Net OPEB Liability | (82,850) |
| *Net Cash Used for Operating Activities* | ($203,531) |

See accompanying notes to the basic financial statements

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## Note 1 - Description of the School

The Foxfire High School (High School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The High School is an approved tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that have occurred that might adversely affect the High School's tax exempt status. The High School's mission is to help at-risk students meet Ohio's graduation requirements. The High School serves as a drop-out, recovery, and prevention school and focuses on ensuring that basic survival needs are met so that students can achieve success in school. The High School serves elementary, middle, high school age students and above who have dropped out or are at risk of dropping out of school. A particular emphasis is placed on assisting parents and/or pregnant students obtain a high school diploma.

The High School was created on September 3, 2003 by entering a contract with the Maysville Local School District (the Sponsor) and served students in grades nine through twelve. Beginning in fiscal year 2017, the High School began to serve students in grades four through twelve. This change in grades served was due to a change by the Ohio Department of Education which allows a drop-out, recovery, and prevention school to serve grades four through twelve. The Sponsor is responsible for evaluating the performance of the High School and has the authority to deny renewal of the contract at its expiration. The Sponsor is also the fiscal agent of High School with the Treasurer of the Sponsor serving as the Treasurer for the High School.

The High School operates under the direction of a five-member Board of Directors comprised of five community members recommended by the Executive Director after consulting with the Sponsor's Superintendent. All governing authority members are required to live and/or work in the Zanesville-Muskingum County community and are to represent the interest of the Muskingum County community. The Board of Directors approves High School's staff of fourteen noncertified and twenty-five certificated full time teaching personnel who provide services to 358 students. The High School is a component unit of the Sponsor. The Sponsor is able to impose its will on High School and due to their relationship with the Sponsor it would be misleading to exclude them. The Sponsor can suspend the High School's operations for any of the following reasons: 1) The High School's failure to meet student performance requirements stated in its contract with the Sponsor, 2) The High School's failure to meet generally accepted standards of fiscal management, 3) The High School's violation of any provisions of the contract with the Sponsor or applicable state or federal law, or 4) Other good cause. The Board of Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of the High School and the students it serves. The High School uses the facilities provided by the Sponsor. When the High School began operations in 2003, the employees were considered employees of the Sponsor. Beginning January 1, 2011, the employees became employees of the High School.

The High School participates in one insurance purchasing pool, the Ohio School Benefits Cooperative. This organization is presented in Note 13 to the general purpose financial statements.

## Note 2 - Summary of Significant Accounting Policies

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

## Basis of Presentation

The High School's basic financial statements consist of a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows.

The High School uses a single enterprise fund to present its financial records for the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods or services.

## Measurement Focus

The enterprise fund is accounted for using 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 the High School are included on the statement of net position. The statement of revenues, expenses, and changes in net position presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position. The statement of cash flows reflects how the High School finances meet its cash flow needs.

## Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The High School's financial statements are prepared using the accrual basis of accounting. 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. Revenue resulting from nonexchange transactions, in which the High School receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the High School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the High School on a reimbursement basis. Expenses are recognized at the time they are incurred.

***Deferred Outflows/Inflows 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 High School, deferred outflows of resources are reported on the statement of net position for pension and OPEB plans. The deferred outflows of resouces related to pension and OPEB plans are explained in Notes 9 and 10.

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 until that time. For the High School, deferred inflows of resources include pension and OPEB plans. These amounts have been recorded as a deferred inflow on the statement of net position. Deferred inflows of resources related to pension and OPEB plans are reported on the statement of net position. (See Notes 9 and 10)

**Budgetary Process**

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by High School's contract with its Sponsor. The contract between High School and its Sponsor does not prescribe an annual budget requirement in addition to preparing a five year forecast, which is updated on an annual basis.

**Cash and Cash Equivalents**

Cash received by High School is reflected as "Cash and Cash Equivalents" on the statement of net position. Investments with original maturities of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2018, the High School had no investments. The interest earnings received by High School were from an interest bearing checking account.

**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 period amount is recorded at the time of the purchase and an expense/expenditure is reported in the fiscal year in which services are consumed.

**Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expensed when used. Inventories consist of expendable supplies held for consumption and donated and purchased food held for resale.

**Capital Assets**

The High School's capital assets during fiscal year 2018 consisted of computer equipment, video equipment, signs, athletic equipment, kitchen equipment, and classroom improvements. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition values as of the date received. The High School maintains a capitalization threshold of one thousand dollars. All of the High School's reported capital assets are depreciated using the straight-line method over the useful life ranging from five to 40 years.

**Compensated Absences**

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the High School has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the High School's termination policy. The High School currently has three employees that it anticipates as being probable to retire.

**Net Position**

Net position represents the difference between assets and liabilities. Net position are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The government-wide statement of net position reports no restricted net position and has no monies restricted by enabling legislation.

Net position restricted for other purposes include federal grants restricted to expenditures for specified purposes.

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

**Operating Revenues and Expenses**

The High School currently participates in the State Foundation Program and the State Special Education Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which they are earned and become measurable.

Other operating revenues are those revenues that are generated directly from the primary activity of the High School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the High School. All revenues and expenses not meeting this definition are reported as non-operating.

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

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

**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.

**Note 3 - Deposits**

Protection of the High School'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.

Custodial credit risk is the risk that, in the event of a bank failure, the High School's deposits may not be returned. The High School does not have a deposit policy for custodial credit risk. At June 30, 2018, the bank balance of the High School's deposits was $1,663,066. $250,000 of the bank balance was covered by federal depository insurance and the remaining balance was covered by OPCS. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

The High School had no investments during fiscal year 2018.

**Note 4 – Capital Asset Note**

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

| | Balance June 30, 2017 | Additions | Deletions | Balance June 30, 2018 |
|---|---|---|---|---|
| ***Nondepreciable Capital Assets:*** | | | | |
| Construction in Progress | $22,562 | $142,595 | ($165,157) | $0 |
| ***Depreciable Capital Assets:*** | | | | |
| Equipment and Classroom Improvements | 228,510 | 201,246 | 0 | 429,756 |
| Less Accumulated Depreciation | (78,208) | (28,894) | 0 | (107,102) |
| Depreciable Capital Assets, Net | 150,302 | 172,352 | 0 | 322,654 |
| Capital Assets, Net | $172,864 | $314,947 | ($165,157) | $322,654 |

**Note 5 – Intergovernmental Receivable**

Receivables at June 30, 2018, consisted of intergovernmental grants. The receivables are expected to be collected in full within one year.

A summary of principal items of intergovernmental receivables follows:

| | Amounts |
|---|---|
| **Governmental Activities** | |
| Summer School Program | $154,653 |
| Title I | 37,006 |
| Title VI-B | 27,302 |
| Strategies Secondary Transition | 949 |
| SERS Refund | 26,553 |
| Bureau of Workers' Compensation Refund | 3,116 |
| Medicaid | 2,743 |
| Total | $252,322 |

**Note 6 – Risk Management**

The High School is exposed to various risks of loss related to torts; errors and omissions; and natural disasters. The High School maintains liability insurance through the Maysville Local School District's policy. Employees are fully insured for health coverage through Medical Mutual, dental and vision benefits through Guardian Life Insurance Company of America, and life insurance benefits through CM Regent, LLC.

## Note 7 – Related Party Transactions

The Board of Directors of the High School consists of five community members recommended by the Executive Director of the High School after consulting with Maysville Local School District's (Sponsor) Superintendent. The High School is presented as a component unit of the Sponsor. During fiscal year 2018, $688,029 was paid to the Sponsor for rent, utilities, transportation, and other support services provided to the High School. The High School is located in a portion of facilities previously utilized by the Sponsor. As of June 30, 2018, there were no outstanding expenses owed to the sponsor.

## Note 8 – High School's Expenses

| | Regular Instruction (1100 Function codes) | Special Instruction (1200 Function codes) | Other Instruction (1300 and 1900 Function Codes) | Support Services (2000 Function Codes) | Non-Instructional (3000 through 7000 Function Codes) | Total |
|---|---|---|---|---|---|---|
| *Direct expenses:* | | | | | | |
| Salaries & wages (100 object codes) | $798,981 | $300,693 | $191,241 | $786,944 | $108,389 | $2,186,248 |
| Employees' benefits (200 object codes) | 326,389 | 87,236 | 48,209 | 275,981 | 17,169 | 754,984 |
| Professional and technical services (410 object codes) | 45,098 | 0 | 179,628 | 268,823 | 650 | 494,199 |
| Property services (420 object codes) | 0 | 0 | 0 | 18,676 | 4,505 | 23,181 |
| Rental expenses (425 object codes) | 572,224 | 0 | 0 | 0 | 0 | 572,224 |
| Travel/Meeting Expense (430 object codes) | 1,355 | 0 | 0 | 1,399 | 0 | 2,754 |
| Advertising /Phone/Postage (440 object codes) | 43,482 | 0 | 0 | 7,877 | 0 | 51,359 |
| Utilities (450 object codes) | 0 | 0 | 0 | 61,388 | 0 | 61,388 |
| Transportation (480 object codes) | 0 | 0 | 0 | 0 | 1,618 | 1,618 |
| Other purchased services (490 object codes) | 0 | 0 | 5,350 | 0 | 2,453 | 7,803 |
| Supplies (500 object codes) | 21,581 | 0 | 29,252 | 18,621 | 110,507 | 179,961 |
| Equipment (640 object codes) | 58,322 | 660 | 3,517 | 173,652 | 13,739 | 249,890 |
| Other direct costs (All other object codes) | 1,034 | 0 | 0 | 70 | 1,336 | 2,440 |
| Total expenses | $1,868,466 | $388,589 | $457,197 | $1,613,431 | $260,366 | $4,588,049 |

Expenses are shown on a cash basis.

## Note 9 – Defined Benefit Pension Plans

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

### *Net Pension Liability/Net OPEB Liability*

The net pension liability and the net OPEB liability reported on the statement of net position represent liabilities to employees for pensions and OPEB, respectively. Pensions/OPEB are a component of exchange transactions-between an employer and its employees-of salaries and benefits for employee services. Pensions/OPEB are provided to an employee-on a deferred-payment basis-as part of the total compensation package offered by an employer for employee services each financial period. The 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/OPEB liability represent the High School's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability 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 High School's obligation for this liability to annually required payments. The High School cannot control benefit terms or the manner in which pensions are financed; however, the High School does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

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

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension/OBEB liability* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 10 for the required OPEB disclosures.

### *Plan Description - School Employees Retirement System (SERS)*

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

Age and service requirements for retirement are as follows:

| | Eligible to Retire on or before August 1, 2017 * | Eligible to Retire 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 years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the High School is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining .5 percent was allocated to the Health Care Fund.

The High School's contractually required contribution to SERS was $106,467 for fiscal year 2018. Of this amount $10,421 is reported as an intergovernmental payable.

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

Plan Description – the High School licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple employer public employee 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 is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when 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 goes 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, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The High School's contractually required contribution to STRS was $211,065 for fiscal year 2018. Of this amount $59,564 is reported as an intergovernmental payable.

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

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

| | SERS | STRS | Total |
|---|---|---|---|
| Proportion of the Net Pension Liability Prior Measurement Date | 0.01330920% | 0.00695565% | |
| Proportion of the Net Pension Liability Current Measurement Date | 0.01785430% | 0.01046358% | |
| Change in Proportionate Share | 0.00454510% | 0.00350793% | |
| Proportionate Share of the Net Pension Liability | $1,066,755 | $2,485,646 | $3,552,401 |
| Pension Expense | $50,834 | ($758,751) | ($707,917) |

At June 30, 2018, the High School 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 | $45,909 | $95,984 | $141,893 |
| Changes of assumptions | 55,163 | 543,638 | 598,801 |
| Changes in proportionate Share and difference between High School contributions and proportionate share of contributions | 230,952 | 869,590 | 1,100,542 |
| High School contributions subsequent to the measurement date | 106,467 | 211,065 | 317,532 |
| Total Deferred Outflows of Resources | $438,491 | $1,720,277 | $2,158,768 |
| **Deferred Inflows of Resources** | | | |
| Differences between expected and actual experience | $0 | $20,033 | $20,033 |
| Net difference between projected and actual earnings on pension plan investments | 5,064 | 82,029 | 87,093 |
| Changes in Proportionate Share and Difference between High School contributions and proportionate share of contributions | 0 | 38,508 | 38,508 |
| Total Deferred Inflows of Resources | $5,064 | $140,570 | $145,634 |

$317,532 reported as deferred outflows of resources related to pension resulting from High School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the 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 | $132,013 | $312,877 | $444,890 |
| 2020 | 146,651 | 424,462 | 571,113 |
| 2021 | 73,166 | 379,061 | 452,227 |
| 2022 | (24,870) | 252,242 | 227,372 |
| Total | $326,960 | $1,368,642 | $1,695,602 |

### *Actuarial Assumptions - SERS*

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

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

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

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

| | |
|---|---|
| Wage Inflation | 3.00 percent |
| Future Salary Increases, including inflation | 3.50 percent to 18.20 percent |
| COLA or Ad Hoc COLA | 2.5 percent |
| Investment Rate of Return | 7.50 percent net of investments expense, including inflation |
| Actuarial Cost Method | Entry Age Normal |

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

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table 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 most recent experience study was completed for the five year period ended June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined 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 rebalanced uncorrelated asset classes.

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

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

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

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| High School's proportionate share of the net pension liability | $1,480,379 | $1,066,755 | $720,261 |

***Actuarial Assumptions - STRS***

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

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

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

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

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

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

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

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

| | 1% Decrease (6.45%) | Current Discount Rate (7.45%) | 1% Increase (8.45%) |
|---|---|---|---|
| High School's proportionate share of the net pension liability | $3,563,089 | $2,485,646 | $1,578,062 |

***<u>Social Security System</u>***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System / State Teachers Retirement System. As of June 30, 2018, none of the Board of Education members elected Social Security.

## Note 10 - Postemployment Benefits

See note 9 for a description of the net OPEB liability.

### *Plan Description - School Employees Retirement System (SERS)*

Health Care Plan Description – the High School 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, 0.5 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 High School's surcharge obligation was $7,424.

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 High School's contractually required contribution to SERS was $11,367 for fiscal year 2018. Of this amount $7,810 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 High School's proportion of the net OPEB liability was based on the High School's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

| | SERS | STRS | Total |
|---|---|---|---|
| Proportion of the Net OPEB Liability | | | |
| Prior Measurement Date | 0.0135165% | 0.00695565% | |
| Proportion of the Net OPEB Liability | | | |
| Current Measurement Date | 0.0182577% | 0.01046358% | |
| Change in Proportionate Share | 0.0047412% | 0.00350793% | |
| Proportionate Share of the Net | | | |
| OPEB Liability | $489,989 | $408,250 | $898,239 |
| OPEB Expense | $64,841 | ($97,775) | ($32,934) |

At June 30, 2018, the High School 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 | $23,567 | $23,567 |
| Changes in proportionate Share and difference between High School contributions and proportionate share of contributions | 98,266 | 160,804 | 259,070 |
| High School contributions subsequent to the measurement date | 11,367 | 0 | 11,367 |
| Total Deferred Outflows of Resources | $109,633 | $184,371 | $294,004 |
| **Deferred Inflows of Resources** | | | |
| Changes of assumptions | $46,497 | $32,886 | $79,383 |
| Net difference between projected and actual earnings on OPEB plan investments | 1,294 | 17,450 | 18,744 |
| Total Deferred Inflows of Resources | $47,791 | $50,336 | $98,127 |

$11,367 reported as deferred outflows of resources related to OPEB resulting from the High School 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 | $18,433 | $20,886 | $39,319 |
| 2020 | 18,433 | 20,886 | 39,319 |
| 2021 | 13,933 | 20,886 | 34,819 |
| 2022 | (324) | 20,885 | 20,561 |
| 2023 | 0 | 25,248 | 25,248 |
| Thereafter | 0 | 25,244 | 25,244 |
| Total | $50,475 | $134,035 | $184,510 |

***Actuarial Assumptions - SERS***

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

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

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

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

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

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

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

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed 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 SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 9.

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

| | 1% Decrease (2.63%) | Current Discount Rate (3.63%) | 1% Increase (4.63%) |
|---|---|---|---|
| High School's proportionate share of the net OPEB liability | $591,724 | $489,989 | $409,389 |

| | 1% Decrease (6.5 % decreasing to 4.0 %) | Current Trend Rate (7.5 % decreasing to 5.0 %) | 1% Increase (8.5 % decreasing to 6.0 %) |
|---|---|---|---|
| High School's proportionate share of the net OPEB liability | $397,589 | $489,989 | $612,281 |

***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 percent |
| Cost-of-Living Adjustments (COLA) | 0.0 percent, effective July 1, 2017 |
| Blended Discount Rate of Return | 4.13 percent |
| Health Care Cost Trends | 6 to 11 percent initial, 4.5 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.

The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 9.

***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 High School'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%) |
|---|---|---|---|
| High School's proportionate share of the net OPEB liability | $548,069 | $408,250 | $297,747 |

| | 1% Decrease | Current Trend Rate | 1% Increase |
|---|---|---|---|
| High School's proportionate share of the net OPEB liability | $283,635 | $408,250 | $572,259 |

## Note 11 – Contingencies

### Grants

The High School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the High School at June 30, 2018.

### School Foundation

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities.

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.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. As of the date of this report, ODE has not performed an FTE Review on the School for fiscal year 2018.

Subsequent to June 30, 2018, there were multiple adjustments from the State to the foundation settlement reports for fiscal year 2018. The total of these adjustments indicated that the High School was overpaid by $25. Management believes this does not materially impact the financial statements, therefore it has not been shown as an intergovernmental payable as of June 30, 2018.

In addition, the High School's contract with their Sponsor requires payment based on annual FTE. As discussed above, there were multiple FTE adjustments for fiscal year 2018. In total the FTE adjustments of FY18 resulted in an overpayment of $448 to the Sponsor. On January 18, 2019, the Sponsor paid this amount back to the High School. Management believes this does not materially impact the financial statements, therefore it has not been shown as an intergovernmental receivable as of June 30, 2018.

**Litigation**

The High School currently is not a party to any lawsuits

**Note 12 – Long-Term Obligations**

The changes in the High School's long-term obligations during the year consist of the following:

| | Outstanding 6/30/2017 | Additions | Deletions | Outstanding 6/30/2018 | Due Within One Year |
|---|---|---|---|---|---|
| Compensated Absences | $57,031 | $19,555 | $0 | $76,586 | $0 |
| Net Pension Liability: | | | | | |
| SERS | 974,111 | 92,644 | 0 | 1,066,755 | 0 |
| STRS | 2,328,266 | 157,380 | 0 | 2,485,646 | 0 |
| Total Net Pension Liability | 3,302,377 | 250,024 | 0 | 3,552,401 | 0 |
| Net OPEB Liability: | | | | | |
| SERS | 385,270 | 104,719 | 0 | 489,989 | 0 |
| STRS | 371,990 | 36,260 | 0 | 408,250 | 0 |
| Total Net OPEB Liability | 757,260 | 140,979 | 0 | 898,239 | 0 |
| Total Long-Term Obligations | $4,116,668 | $410,558 | $0 | $4,527,226 | $0 |

There is no repayment schedule for the net pension/OPEB liability. For additional information related to the net pension/OPEB liability, see Notes 9 and 10.

## Note 13 – Insurance Purchasing Pool

### Ohio School Benefits Cooperative

The High School participates in the Ohio School Benefits Cooperative, a claims servicing and group purchasing pool comprised of fifteen members. The Ohio School Benefits Cooperative (OSBC) is created and organized pursuant to and as authorized by Section 9.833 of the Ohio Revised Code. OSBC is governed by a nine member Board of Directors, all of whom must be Educational Service Center and/or educational service center administrators. The Muskingum Valley Educational Service Center serves as the fiscal agent for OSBC. OSBC is an unincorporated, non-profit association of its members which was created for the purpose of enabling members of the Plan to maximize benefits and/or reduce costs of medical, prescription drug, vision, dental, life and/or other group insurance coverage for their employees, and the eligible dependents and designated beneficiaries of such employees.

Participants pay a $500 membership fee to OSBC. OSBC offers two options to participants. Participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OSBC's third party administrator. Medical Mutual/Antares is the Administrator of the OSBC. The High School elected to participate in the joint insurance purchasing program for medical and prescription drug coverage.

## Note 14 – Change in Accounting Principle and Restatement of Net Position

For fiscal year 2018, the High School implemented Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* and related guidance from (GASB) Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).*

For fiscal year 2018, the High School also implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2017-1*. These changes were incorporated in the High School's fiscal year 2018 financial statements; however, there was no effect on beginning net position.

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

GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported June 30, 2017:

| | |
|---|---|
| Net Position June 30, 2017 | ($1,357,680) |
| Adjustments: | |
| Net OPEB Liability | (757,260) |
| Deferred Outflow - Payments Subsequent to Measurement Date | 10,597 |
| Restated Net Position June 30, 2017 | ($2,104,343) |

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

**Foxfire High School**

*Required Supplementary Information*

*Schedule of the High School's Proportionate Share of the Net Pension Liability*

*School Employees Retirement System of Ohio*

*Last Five Fiscal Years (1) **

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| High School's Proportion of the Net Pension Liability | 0.0178543% | 0.0133092% | 0.0126532% | 0.0122780% | 0.0126532% |
| High School's Proportionate Share of the Net Pension Liability | $1,066,755 | $974,111 | $722,004 | $621,382 | $730,133 |
| High School's Covered Payroll | $625,757 | $411,557 | $385,221 | $337,734 | $375,733 |
| High School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 170.47% | 236.69% | 187.43% | 183.99% | 194.32% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 69.50% | 62.98% | 69.16% | 71.70% | 65.52% |

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

* Amounts presented for each fiscal year were deteremined as of the High School's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

**Foxfire High School**

*Required Supplementary Information*

*Schedule of the High School's Proportionate Share of the Net Pension Liability*

*State Teachers Retirement System of Ohio*

*Last Five Fiscal Years (1) **

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| High School's Proportion of the Net Pension Liability | 0.01046358% | 0.00695565% | 0.00674020% | 0.00706668% | 0.00706668% |
| High School's Proportionate Share of the Net Pension Liability | $2,485,646 | $2,328,266 | $1,862,794 | $1,718,861 | $2,047,496 |
| High School's Covered Payroll | $1,265,229 | $717,839 | $692,179 | $728,854 | $835,908 |
| High School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 196.46% | 324.34% | 269.12% | 235.83% | 244.94% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 75.30% | 66.80% | 72.10% | 74.70% | 69.30% |

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

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

See accompanying notes to required supplementary information

**Foxfire High School**

*Required Supplementary Information*

*Schedule of High School's Proportionate Share of the Net OPEB Liability*

*School Employees Retirement System of Ohio*

*Last Two Fiscal Years (1) **

| | 2018 | 2017 |
|---|---|---|
| High School's Proportion of the Net OPEB Liability | 0.0182577% | 0.0135165% |
| High School's Proportionate Share of the Net OPEB Liability | $489,989 | $385,270 |
| High School's Covered Payroll | $625,757 | $411,557 |
| High School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll | 78.30% | 93.61% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 12.46% | 11.49% |

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each year.

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

See accompanying notes to the required supplementary information

**Foxfire High School**

*Required Supplementary Information*

*Schedule of High School's Proportionate Share of the Net OPEB Liability*

*State Teachers Retirement System of Ohio*

*Last Two Fiscal Years (1) **

| | 2018 | 2017 |
|---|---|---|
| High School's Proportion of the Net OPEB Liability | 0.01046358% | 0.00695565% |
| High School's Proportionate Share of the Net OPEB Liability | $408,250 | $371,990 |
| High School's Covered Payroll | $1,265,229 | $717,836 |
| High School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll | 32.27% | 51.82% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 47.10% | 37.30% |

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each year.

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

See accompanying notes to the required supplementary information

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**Foxfire High School**
*Required Supplementary Information*
*Schedule of the High School Contributions*
*School Employees Retirement System of Ohio*
*Last Eight Fiscal Years*

| | 2018 | (2) 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Net Pension Liability** | | | | | |
| Contractually Required Contribution | $106,467 | $87,606 | $57,618 | $50,772 | $46,810 |
| Contributions in Relation to the Contractually Required Contribution | (106,467) | (87,606) | (57,618) | (50,772) | (46,810) |
| Contribution Deficiency (Excess) | $0 | $0 | $0 | $0 | $0 |
| High School Covered Payroll (3) | $788,644 | $625,757 | $411,557 | $385,221 | $337,734 |
| Contributions as a Percentage of Covered Payroll | 13.50% | 14.00% | 14.00% | 13.18% | 13.86% |
| **Net OPEB Liability** | | | | | |
| Contractually Required Contribution | $11,367 | $10,597 | $6,964 | $6,808 | $6,247 |
| Contributions in Relation to the Contractually Required Contribution | (11,367) | (10,597) | (6,964) | (6,808) | (6,247) |
| Contribution Deficiency (Excess) | $0 | $0 | $0 | $0 | $0 |
| OPEB Contributions as a Percentage of Covered Payroll | 1.44% | 1.69% | 1.69% | 1.77% | 1.85% |
| Total Contributions as a Percentage of Covered Payroll (4) | 14.94% | 15.69% | 15.69% | 14.95% | 15.71% |

(1) - Foxfire High School contracted with the Sponsor District for employees prior to January 1, 2011.
(2) - Foxfire High School increased the number of grades served which increased staff.
(3) - Foxfire High School covered payroll is the same for Pension and OPEB.
(4) - Includes Surcharge

See accompanying notes to required supplementary information

| 2013 | 2012 | (1) 2011 |
|---|---|---|
| $52,001 | $44,939 | $16,652 |
| (52,001) | (44,939) | (16,652) |
| $0 | $0 | $0 |
| $375,733 | $334,118 | $132,472 |
| 13.84% | 13.45% | 12.57% |
| $7,912 | $4,665 | $707 |
| (7,912) | (4,665) | (707) |
| $0 | $0 | $0 |
| 2.11% | 1.40% | 0.53% |
| 15.95% | 14.85% | 13.10% |

**Foxfire High School**

*Required Supplementary Information*
*Schedule of the High School Contributions*
*State Teachers Retirement System of Ohio*
*Last Eight Fiscal Years*

| | 2018 | (2) 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Net Pension Liability** | | | | | |
| Contractually Required Contribution | $211,065 | $177,132 | $100,497 | $96,905 | $94,751 |
| Contributions in Relation to the Contractually Required Contribution | (211,065) | (177,132) | (100,497) | (96,905) | (94,751) |
| Contribution Deficiency (Excess) | $0 | $0 | $0 | $0 | $0 |
| High School Covered Payroll (3) | $1,507,607 | $1,265,229 | $717,839 | $692,179 | $728,854 |
| Contributions as a Percentage of Covered Payroll | 14.00% | 14.00% | 14.00% | 14.00% | 13.00% |
| **Net OPEB Liability** | | | | | |
| Contractually Required Contribution | $0 | $0 | $0 | $0 | $7,289 |
| Contributions in Relation to the Contractually Required Contribution | 0 | 0 | 0 | 0 | (7,289) |
| Contribution Deficiency (Excess) | $0 | $0 | $0 | $0 | $0 |
| OPEB Contributions as a Percentage of Covered Payroll | 0.00% | 0.00% | 0.00% | 0.00% | 1.00% |
| Total Contributions as a Percentage of Covered Payroll | 14.00% | 14.00% | 14.00% | 14.00% | 14.00% |

(1) - Foxfire High School contracted with the Sponsor District for employees prior to January 1, 2011.
(2) - Foxfire High School increased the number of grades served which resulted in an increase in staff.
(3) - Foxfire High School covered payroll is the same for Pension and OPEB.

See accompanying notes to required supplementary information

| 2013 | 2012 | (1) 2011 |
|---|---|---|
| $108,668 | $110,496 | $34,414 |
| (108,668) | (110,496) | (34,414) |
| $0 | $0 | $0 |
| $835,908 | $849,969 | $264,723 |
| 13.00% | 13.00% | 13.00% |
| $8,359 | $8,500 | $2,647 |
| (8,359) | (8,500) | (2,647) |
| $0 | $0 | $0 |
| 1.00% | 1.00% | 1.00% |
| 14.00% | 14.00% | 14.00% |

## Net Pension Liability

### Changes in Assumptions – SERS

For fiscal year 2018, an assumption of 2.5 percent was used for COLA or Ad Hoc Cola. Prior to 2018, an assumption of 3 percent was used.

Beginning with fiscal year 2017, amounts reported incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2016 and prior are presented below:

| | Fiscal Year 2017 | Fiscal Year 2016 and Prior |
|---|---|---|
| Wage Inflation | 3.00 percent | 3.25 percent |
| Future Salary Increases, including inflation | 3.50 percent to 18.20 percent | 4.00 percent to 22.00 percent |
| Investment Rate of Return | 7.50 percent net of investments expense, including inflation | 7.75 percent net of investments expense, including inflation |

Beginning with fiscal year 2017, mortality assumptions use mortality rates that are based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Amounts reported for fiscal year 2016 and prior, use mortality assumptions that are based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

### Changes in Assumptions - STRS

Amounts reported for fiscal year 2018 incorporate changes in assumptions and changes in benefit terms used by STRS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2017 and prior are presented below:

| | Fiscal Year 2018 | Fiscal Year 2017 and Prior |
|---|---|---|
| Inflation | 2.50 percent | 2.75 percent |
| Projected salary increases | 12.50 percent at age 20 to 2.50 percent at age 65 | 12.25 percent at age 20 to 2.75 percent at age 70 |
| Investment Rate of Return | 7.45 percent, net of investment expenses, including inflation | 7.75 percent, net of investment expenses, including inflation |
| Payroll Increases | 3 percent | 3.5 percent |
| Cost-of-Living Adjustments (COLA) | 0.0 percent, effective July 1, 2017 | 2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, ,2013, or later, 2 percent COLA commences on fifth anniversary of retirement date. |

For fiscal year 2018 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% of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For fiscal year 2017 and prior actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

**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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OHIO AUDITOR OF STATE
KEITH FABER

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

Foxfire High School
Muskingum County
2805 Pinkerton Road
Zanesville, Ohio 43701

To the Board of Directors:

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 Foxfire High School, Muskingum County, Ohio (the High School), a component unit of the Maysville Local School District, Muskingum County, Ohio, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the High School's basic financial statements, and have issued our report thereon dated February 28, 2019, wherein we noted the High School 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 High School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the High School'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 High School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

February 28, 2019

OHIO AUDITOR OF STATE
KEITH FABER

**FOXFIRE HIGH SCHOOL**

**MUSKINGUM 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 12, 2019**

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