



OHIO AUDITOR OF STATE  
**KEITH FABER**





**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT  
PREBLE COUNTY  
JUNE 30, 2018**

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**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT  
PREBLE COUNTY  
JUNE 30, 2018**

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## INDEPENDENT AUDITOR'S REPORT

Preble Shawnee Local School District  
Preble County  
124 Bloomfield Street  
Camden, Ohio 45311

To the Board of Education:

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

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

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

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

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

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

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

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

**Opinion**

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

**Accounting Basis**

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

**Other Matters**

*Supplementary Information*

Our audit was conducted to opine on the financial statements taken as a whole.

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

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Keith Faber  
Auditor of State  
Columbus, Ohio

May 21, 2019

**Preble Shawnee Local School District**  
Statement of Net Position - Modified Cash Basis  
June 30, 2018

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	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$17,205,079
Non-Depreciable Capital Assets	247,991
Depreciable Capital Assets, Net	<u>5,732,019</u>
<i>Total Assets</i>	<u><u>23,185,089</u></u>
<b>Net Position:</b>	
Investment in Capital Assets	5,980,010
Restricted for:	
Classroom Facilities Maintenance	1,057,786
District Managed Activities	9,843
Federal and State Grants	10,245
Set-Asides	162,956
Unrestricted	<u>15,964,249</u>
<i>Total Net Position</i>	<u><u>\$23,185,089</u></u>

See Accompanying Notes to the Basic Financial Statements

**Preble Shawnee Local School District**  
Statement of Activities - Modified Cash Basis  
For the Fiscal Year Ended June 30, 2018

	Program Receipts			Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services	Operating Grants, Contributions and Interest	Total Governmental Activities
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$6,495,453	\$729,343	\$76,440	(\$5,689,670)
Special	2,207,638	29,423	1,094,257	(1,083,958)
Vocational	259,054	0	61,495	(197,559)
Support Services:				
Pupils	812,554	0	0	(812,554)
Instructional Staff	291,318	0	0	(291,318)
Board of Education	93,796	0	0	(93,796)
Administration	1,409,519	268,552	97,819	(1,043,148)
Fiscal	702,545	0	0	(702,545)
Business	1,286	0	0	(1,286)
Operation and Maintenance of Plant	1,846,312	160	36,816	(1,809,336)
Pupil Transportation	1,119,430	0	29,160	(1,090,270)
Central	153,437	0	5,400	(148,037)
Operation of Non-Instructional Services	766,939	211,409	407,262	(148,268)
Extracurricular Activities	417,419	105,990	8,253	(303,176)
<i>Total Governmental Activities</i>	<u>\$16,576,700</u>	<u>\$1,344,877</u>	<u>\$1,816,902</u>	<u>(13,414,921)</u>
<b>General Receipts:</b>				
Property Taxes Levied For:				
General Purposes				3,065,398
Classroom Facilities				24,567
Income Tax				2,418,993
Grants and Entitlements not Restricted to Specific Programs				8,197,909
Investment Earnings				240,019
Gifts and Donations				5,782
Miscellaneous				140,274
<i>Total General Receipts</i>				<u>14,092,942</u>
<i>Change in Net Position</i>				678,021
<i>Net Position at Beginning of Year</i>				<u>22,507,068</u>
<i>Net Position at End of Year</i>				<u><u>\$23,185,089</u></u>

See Accompanying Notes to the Basic Financial Statements



**Preble Shawnee Local School District**  
 Balance Sheet - Modified Cash Basis  
 Governmental Funds  
 June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets:</b>			
Equity in Pooled Cash and Cash Equivalents	\$15,688,792	\$1,353,331	\$17,042,123
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	162,956	0	162,956
<i>Total Assets</i>	<u>\$15,851,748</u>	<u>\$1,353,331</u>	<u>\$17,205,079</u>
<b>Fund Balances:</b>			
Restricted	\$162,956	\$1,077,874	\$1,240,830
Committed	886,438	0	886,438
Assigned	28,094	275,457	303,551
Unassigned	14,774,260	0	14,774,260
<i>Total Fund Balances</i>	<u>\$15,851,748</u>	<u>\$1,353,331</u>	<u>\$17,205,079</u>

See Accompanying Notes to the Basic Financial Statements

**Preble Shawnee Local School District**  
 Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities - Modified Cash Basis  
 June 30, 2018

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<b>Total Governmental Fund Balances</b>	<b>\$17,205,079</b>
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*Amounts reported for governmental activities in the Statement of Net Position are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	247,991	
Land Improvements	624,736	
Buildings and Improvements	14,839,373	
Furniture, Fixtures, and Equipment	1,713,828	
Vehicles	1,402,392	
Accumulated Depreciation	<u>(12,848,310)</u>	
Total Capital Assets		<u>5,980,010</u>

<i>Net Position of Governmental Activities</i>	<u><u>\$23,185,089</u></u>
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See Accompanying Notes to the Basic Financial Statements

**Preble Shawnee Local School District**  
Statement of Cash Receipts, Disbursements and Changes in  
Fund Balances - Modified Cash Basis  
Governmental Funds  
For the Fiscal Year Ended June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Receipts:</b>			
Property Taxes	\$3,065,398	\$24,567	\$3,089,965
Income Tax	2,418,993	0	2,418,993
Tuition and Fees	758,766	0	758,766
Investment Earnings	240,019	0	240,019
Intergovernmental	8,903,341	1,103,217	10,006,558
Extracurricular Activities	10,197	105,990	116,187
Gifts and Donations	5,782	8,253	14,035
Rent	160	0	160
Charges for Services	258,355	211,409	469,764
Miscellaneous	139,675	599	140,274
<i>Total Receipts</i>	<u>15,800,686</u>	<u>1,454,035</u>	<u>17,254,721</u>
<b>Disbursements:</b>			
Current:			
Instruction:			
Regular	6,192,886	75,733	6,268,619
Special	1,718,125	471,220	2,189,345
Vocational	237,628	0	237,628
Support Services:			
Pupils	811,846	0	811,846
Instructional Staff	273,412	0	273,412
Board of Education	93,796	0	93,796
Administration	1,300,590	95,581	1,396,171
Fiscal	701,311	1,234	702,545
Business	1,286	0	1,286
Operation and Maintenance of Plant	1,677,324	131,340	1,808,664
Pupil Transportation	1,111,818	0	1,111,818
Central	145,404	5,400	150,804
Operation of Non-Instructional Services	7,303	740,268	747,571
Extracurricular Activities	289,139	121,420	410,559
<i>Total Disbursements</i>	<u>14,561,868</u>	<u>1,642,196</u>	<u>16,204,064</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,238,818</u>	<u>(188,161)</u>	<u>1,050,657</u>
<b>Other Financing Sources (Uses):</b>			
Proceeds from Sale of Capital Assets	1,026	0	1,026
Advances In	181,987	183,800	365,787
Advances Out	(183,800)	(181,987)	(365,787)
Transfers In	0	410,042	410,042
Transfers Out	(134,585)	(275,457)	(410,042)
<i>Total Other Financing Sources (Uses)</i>	<u>(135,372)</u>	<u>136,398</u>	<u>1,026</u>
<i>Net Change in Fund Balance</i>	1,103,446	(51,763)	1,051,683
<i>Fund Balances at Beginning of Year</i>	<u>14,748,302</u>	<u>1,405,094</u>	<u>16,153,396</u>
<i>Fund Balances at End of Year</i>	<u>\$15,851,748</u>	<u>\$1,353,331</u>	<u>\$17,205,079</u>

See Accompanying Notes to the Basic Financial Statements

**Preble Shawnee Local School District**  
 Reconciliation of the Statement of Cash Receipts, Disbursements and Changes  
 in Fund Balances of Governmental Funds to the Statement of Activities - Modified Cash Basis  
 For the Fiscal Year Ended June 30, 2018

**Net Change in Fund Balances - Total Governmental Funds** \$1,051,683

*Amounts reported for governmental activities in the  
 Statement of Activities are different because:*

Governmental funds report capital outlays as disbursements. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation disbursements. In the current period, these amounts are:

Capital Outlay	112,516	
Depreciation Disbursement	<u>(485,152)</u>	
Excess of Depreciation Over Capital Outlay Disbursements		(372,636)

The cost of disposed capital assets is removed from the capital assets account on the Statement of Net Position resulting in a loss on disposal of capital assets on the statement of activities.

Loss on Disposal of Capital Assets		<u>(1,026)</u>
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*Change in Net Position of Governmental Activities* \$678,021

See Accompanying Notes to the Basic Financial Statements

**Preble Shawnee Local School District**  
Statement of Receipts, Disbursements and  
Changes in Fund Balance - Budget and Actual - Budget Basis  
General Fund  
For the Fiscal Year Ended June 30, 2018

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Receipts:</b>				
Property Taxes	\$3,065,057	\$3,065,398	\$3,065,398	\$0
Income Tax	2,430,338	2,418,993	2,418,993	0
Tuition and Fees	758,557	758,766	758,766	0
Investment Earnings	219,187	220,088	220,088	0
Intergovernmental	9,133,214	8,903,337	8,903,337	0
Extracurricular Activities	15,588	10,197	10,197	0
Gifts and Donations	4,517	5,782	5,782	0
Rent	195	160	160	0
Charges for Services	95,719	258,355	258,355	0
Miscellaneous	119,626	125,590	125,590	0
<i>Total Receipts</i>	<u>15,841,998</u>	<u>15,766,666</u>	<u>15,766,666</u>	<u>0</u>
<b>Disbursements:</b>				
Current:				
Instruction:				
Regular	6,119,859	6,197,201	6,197,201	0
Special	1,635,351	1,718,245	1,718,245	0
Vocational	246,049	245,329	245,329	0
Support Services:				
Pupils	810,367	813,046	813,046	0
Instructional Staff	271,386	273,412	273,412	0
Board of Education	109,135	106,240	106,240	0
Administration	1,320,699	1,301,682	1,301,682	0
Fiscal	734,445	701,431	701,431	0
Business	1,759	1,286	1,286	0
Operation and Maintenance of Plant	2,155,226	2,118,661	2,118,661	0
Pupil Transportation	1,293,426	1,196,638	1,196,638	0
Central	222,851	145,404	145,404	0
Operation of Non-Instructional Services	16,219	7,303	7,303	0
Extracurricular Activities	254,688	289,139	289,139	0
<i>Total Disbursements</i>	<u>15,191,460</u>	<u>15,115,017</u>	<u>15,115,017</u>	<u>0</u>
<i>Excess of Receipts Over Disbursements</i>	<u>650,538</u>	<u>651,649</u>	<u>651,649</u>	<u>0</u>
<b>Other Financing Sources (Uses):</b>				
Refund of Prior Year Disbursements	40,692	14,089	14,089	0
Proceeds From Sale of Capital Assets	0	1,026	1,026	0
Advances In	162,500	181,987	181,987	0
Advances Out	(200,000)	(183,800)	(183,800)	0
Transfers In	19,676	0	0	0
Transfers Out	(192,278)	(134,585)	(134,585)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(169,410)</u>	<u>(121,283)</u>	<u>(121,283)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	481,128	530,366	530,366	0
<i>Fund Balance at Beginning of Year</i>	14,521,671	14,521,671	14,521,671	0
<i>Prior Year Encumbrances Appropriated</i>	211,694	211,694	211,694	0
<i>Fund Balance at End of Year</i>	<u>\$15,214,493</u>	<u>\$15,263,731</u>	<u>\$15,263,731</u>	<u>\$0</u>

See Accompanying Notes to the Basic Financial Statements

**Preble Shawnee Local School District**  
Statement of Fiduciary Net Position - Modified Cash Basis  
Fiduciary Funds  
June 30, 2018

	Private Purpose Trust Fund	Agency Funds
<b>Asset:</b>		
Equity in Pooled Cash and Cash Equivalents	\$22,119	\$56,338
<b>Net Position:</b>		
Held in Trust for Scholarships	\$22,119	\$0
Held on Behalf of Students	0	56,338
<i>Total Net Position</i>	\$22,119	\$56,338

See Accompanying Notes to the Basic Financial Statements

**Preble Shawnee Local School District**  
Statement of Changes in Fiduciary Net Position - Modified Cash Basis  
Fiduciary Fund  
For the Fiscal Year Ended June 30, 2018

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	Private Purpose Trust Fund
<b>Additions:</b>	
Gifts and Contributions	\$7,018
Interest	17
	7,035
<i>Total Additions</i>	7,035
<b>Deductions:</b>	
Payments in Accordance with Trust Agreements	4,040
	2,995
<i>Change in Net Position</i>	2,995
<i>Net Position at Beginning of Year</i>	19,124
<i>Net Position at End of Year</i>	\$22,119

See Accompanying Notes to the Basic Financial Statements

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**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018

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**Note 1 - Description of the School District and Reporting Entity**

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

The School District was established in 1968 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 89 square miles. It is located in Butler, Montgomery, and Preble Counties, including Gasper, German, Gratis, Israel, Lanier, Somers, and Wayne Townships.

*Reporting Entity:*

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

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

The School District participates in three jointly governed organizations, two insurance purchasing pools, and two shared risk pool. These organizations are presented in Notes 13 and 14 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

Southwest Ohio Computer Association  
Southwestern Ohio Educational Purchasing Council  
Preble County Professional Development Consortium

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
**(Continued)**

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Insurance Purchasing Pools:

Ohio SchoolComp Group Retro Rating Plan  
Ohio School Plan

Shared Risk Pool:

Preble County Schools Regional Council of Governments  
Southwestern Ohio Educational Purchasing Cooperative Benefit  
Trust Plan

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the Preble Shawnee Local School District are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America. Generally accepted accounting principles (GAAP) include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. The more significant of the School District's accounting policies are described below.

**Basis of Presentation**

The School District's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

*Government-wide Financial Statements:*

The Statement of Net Position and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the School District, except for fiduciary funds. The government-wide financial statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. The School District, however, does not have any activities that are presented as business-type.

The Statement of Net Position presents the cash balance, capital assets, and debt of the governmental activities of the School District at fiscal year-end. The government-wide Statement of Activities compares disbursements with program receipts for each function of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues that are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the general revenues of the School District.

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
**(Continued)**

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*Fund Financial Statements:*

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

**Fund Accounting**

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

*Governmental Funds:*

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g., grants), and other nonexchange transactions as governmental funds. Following is the School District's major governmental fund:

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

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

*Fiduciary Funds:*

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District has three fiduciary funds: a private purpose trust fund, used to account for college scholarship programs for students, and two agency funds, used to account for student-managed activity programs and employee reimbursements of pretax medical premiums taken out of their payroll checks.

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
**(Continued)**

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**Basis of Accounting**

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

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

**Cash and Investments**

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

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

During fiscal year 2018, the School District's investments were limited to negotiable certificates of deposit and State Treasury Asset Reserve of Ohio (STAROhio). STAROhio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The School District measures their investment in STAROhio at the net asset value (NAV) per share provided by STAROhio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, twenty-four hours advance notice is appreciated for deposits and withdrawals of \$25 million or more. STAR Ohio reserves the right to limit the transactions to \$100 million per day, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
**(Continued)**

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Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of investment earnings. Interest credited to the General Fund during fiscal year 2018 was \$240,019, which included \$24,952 assigned from other School District funds.

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

**Restricted Assets**

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributions, grantors, laws of other governments, or imposed by law through constitutional provisions. Restricted assets in the General Fund represent the amount required by State statute to be set aside to create a reserve for capital acquisitions.

**Interfund Balances**

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

**Capital Assets**

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets generally result from disbursements in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) 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 School District maintains a capitalization threshold of \$2,000. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	45 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	6-8 years

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
**(Continued)**

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**Compensated Absences**

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

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

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

**Long-Term Obligations**

The School District's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid.

**Fund Balance**

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

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. The School District did not have any nonspendable fund balances at fiscal year-end.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions. Restricted fund balance in the General fund represents amounts specifically restricted for set-asides.

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

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
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committed for use in satisfying those contractual requirements. Committed fund balance represents amounts specifically committed for Board approved purchases on order and employee reimbursements.

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

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

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

### **Net Position**

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources for federal and State grants restricted to cash disbursement for specified purposes.

The School District applies restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position is available.

### **Internal Activity**

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

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

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
**(Continued)**

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**Budgetary Process**

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

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

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

**Estimates**

The modified cash basis of accounting used by the School District 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 - Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual (Budget Basis) is presented for the General Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the modified cash basis are outstanding year-end encumbrances treated as cash disbursements (budgetary basis) rather than restricted, committed, or assigned fund balance (modified cash basis).



**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
**(Continued)**

1. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statement. These amounts are included as revenue on the modified cash basis operating statement.
2. Encumbrances are treated as expenditures (budget basis) rather than as a restricted, committed, or assigned fund balance (modified cash basis).

The following table summarizes the adjustments necessary to reconcile the modified cash basis statement to the budgetary basis statement for the General Fund.

<u>Net Change in Fund Balance</u>	
	<u>General Fund</u>
Modified Cash Basis	\$1,103,446
Unrecorded Cash Fiscal Year 2017	14,937
Unrecorded Cash Fiscal Year 2018	(34,868)
Adjustment for Encumbrances	(553,149)
Budget Basis	<u>\$530,366</u>

**Note 4 - Deposits and Investments**

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

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

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

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

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

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
**(Continued)**

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Interim monies held by the School District can be deposited or invested in the following securities:

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

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
**(Continued)**

**Investments**

The School District reports their investments at cost. For certain investments, the fair value is different from the cost. As of June 30, 2018, the School District had the following investments:

Measurement/Investment	Measurement Amount	Investment Maturity (in Years)	S & P Rating	Percent of Total Investments
Net Asset Value Per Share				
STAROhio	\$11,098,984	Average 48.9 Days	AAAm	N/A
Fair Value - Level Two Inputs				
Negotiable Certificates of Deposit	<u>4,709,000</u>	Less than three years	N/A	29.79%
Total	<u><u>\$15,807,984</u></u>			

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The School District has no investment policy that addresses interest rate risk beyond State statute requirements. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. STAROhio carries a rating of AAAm by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The negotiable certificates of deposit are in denominations of under \$250,000 each, in separate banks and are insured by the Federal Deposit Insurance Corporation (FDIC). The negotiable certificates of deposit are, therefore, not subject to credit risk. The School District has no investment policy that addresses credit risk.

*Concentration of Credit Risk*

The School District's places no limit on the amount it may invest in any one issuer. The percentage that each investment represents of the total investments is listed in the table above.

**Note 5 - Property Taxes**

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

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
**(Continued)**

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2018 represents collections of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017 on the assessed value listed as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2018 represents collections of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 became a lien December 31, 2016, were levied after April 1, 2017, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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

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

	2017 Second- Half Collections		2018 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$168,434,510	96.41%	\$169,132,250	96.38%
Public Utility Personal	6,278,870	3.59%	6,350,700	3.62%
<i>Total Assessed Values</i>	<u>\$174,713,380</u>	<u>100.00%</u>	<u>\$175,482,950</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$20.50		\$20.00	

**Note 6 - Income Tax**

The School District levies a voted tax of one percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1991 and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds.

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
**(Continued)**

**Note 7 - Capital Assets**

Capital assets activity for the fiscal year ended June 30, 2018 were as follows:

	Balance 6/30/2017	Additions	Deletions	Balance 6/30/2018
<i>Governmental Activities:</i>				
Capital Assets not Being Depreciated:				
Land	\$247,991	\$0	\$0	\$247,991
Capital Assets Being Depreciated:				
Land Improvements	624,736	0	0	624,736
Buildings and Improvements	14,839,373	0	0	14,839,373
Furniture, Fixtures, and Equipment	1,688,193	27,795	(2,160)	1,713,828
Vehicles	1,468,655	84,721	(150,984)	1,402,392
<i>Total Capital Assets Being Depreciated</i>	<u>18,620,957</u>	<u>112,516</u>	<u>(153,144)</u>	<u>18,580,329</u>
Less Accumulated Depreciation:				
Land Improvements	(334,467)	(22,396)	0	(356,863)
Buildings and Improvements	(9,951,523)	(310,875)	0	(10,262,398)
Furniture, Fixtures, and Equipment	(1,370,557)	(56,291)	1,134	(1,425,714)
Vehicles	(858,729)	(95,590)	150,984	(803,335)
<i>Total Accumulated Depreciation</i>	<u>(12,515,276)</u>	<u>(485,152) *</u>	<u>152,118</u>	<u>(12,848,310)</u>
<i>Capital Assets Being Depreciated, Net</i>	<u>6,105,681</u>	<u>(372,636)</u>	<u>(1,026)</u>	<u>5,732,019</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$6,353,672</u>	<u>(\$372,636)</u>	<u>(\$1,026)</u>	<u>\$5,980,010</u>

\* Depreciation disbursement was charged to governmental functions as follows:

Instruction:	
Regular	\$229,017
Special	18,293
Vocational	21,426
Support Services:	
Pupils	708
Instructional Staff	17,906
Administration	16,534
Operation and Maintenance of Plant	49,574
Pupil Transportation	92,333
Central	2,633
Operation of Non-Instructional Services	29,868
Extracurricular Activities	6,860
<i>Total Depreciation Disbursement</i>	<u>\$485,152</u>

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
**(Continued)**

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**Note 8 - Risk Management**

**Property and Liability Insurance**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2018, the School District, along with other school districts in Ohio, participated in the Ohio School Plan (OSP), an insurance purchasing pool. Each individual school district enters into an agreement with the OSP, and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to the OSP (see Note 13). The School District contracts for property, fleet, and liability insurance with OSP.

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage since last year.

**Workers' Compensation**

For fiscal year 2018, the School District participated in the Ohio SchoolComp Group Retro Rating Plan (GRP) sponsored by the Ohio School Board's Association and the Ohio Association of School Business Officials (Note 13). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience, and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the group. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control, and actuarial services to the GRP.

**Employee Medical Benefits**

From July 1<sup>st</sup> 2017 to September 30<sup>th</sup> 2017, the School District participated in the Preble County Schools Regional Council of Governments (the Council), a shared risk pool consisting of five local School Districts and the Educational Service Center (Note 14). The School District pays monthly premiums to the Council for employee medical benefits. The Council is responsible for the management and operations of the program. Upon withdrawal from the Council, a participant is responsible for the payment of all Council liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
**(Continued)**

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Beginning October 1<sup>st</sup>, 2017, the School District participated in the Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (Trust), a public entity shared risk pool (See Note 14). The School District pays monthly premiums to the Trust for employee medical insurance benefits. As of January 1, 2018, the School District pays monthly premiums to the Trust for dental, vision and life insurance benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**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***

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

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

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

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. 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.

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
**(Continued)**

The remainder of this note includes the pension disclosures. See Note 10 for the OPEB disclosures.

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

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

Age and service requirements for retirement are as follows:

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

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

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



**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
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The School District's contractually required contribution to SERS was \$373,531 for fiscal year 2018.

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

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple employer public employee 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](http://www.strsoh.org).

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

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

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
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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 School District's contractually required contribution to STRS was \$827,880 for fiscal year 2018.

***Net Pension Liability***

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

Following is information related to the proportionate share:

	SERS	STRS	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.07784650%	0.05214226%	
Proportion of the Net Pension Liability Current Measurement Date	0.07981000%	0.05197433%	
Change in Proportionate Share	0.00196350%	-0.00016793%	
Proportionate Share of the Net Pension Liability	\$4,768,471	\$12,346,613	\$17,115,084

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
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***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 disable 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.

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
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**(Continued)**

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 averaged 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.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	<u>100.00 %</u>	

**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 School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 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.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
School District's proportionate share of the net pension liability	\$6,617,399	\$4,768,471	\$3,219,617

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**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 as follows:

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

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

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

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

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:

**Preble Shawnee Local School District**  
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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	<u>100.00 %</u>	

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's proportionate share of the net pension liability	\$17,698,450	\$12,346,613	\$7,838,493

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
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**Social Security System**

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

**Note 10 – Post-Employment Benefits**

***Net OPEB Liability***

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

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

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

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

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Notes to the Basic Financial Statements  
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Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the School District's surcharge obligation was \$46,744.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$60,578 for fiscal year 2018.

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

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

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

***Net OPEB Liability***

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



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	SERS	STRS	Total
Proportion of the Net OPEB Liability Prior Measurement Date	0.07784650%	0.05214226%	
Proportion of the Net OPEB Liability Current Measurement Date	<u>0.08088950%</u>	<u>0.05197433%</u>	
Change in Proportionate Share	<u>0.00304300%</u>	<u>-0.00016793%</u>	
Proportionate Share of the Net OPEB Liability	\$2,170,861	\$2,027,847	\$4,198,708

***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 as follows:

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

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Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
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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),

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**(Continued)**

was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

***Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates*** The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) 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%)
School District's proportionate share of the net OPEB liability	\$2,621,592	\$2,170,861	\$1,813,768
	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 %)
School District's proportionate share of the net OPEB liability	\$1,761,492	\$2,170,861	\$2,712,670

***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.

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Notes to the Basic Financial Statements  
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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

**Preble Shawnee Local School District**  
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**(Continued)**

used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

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

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School District's proportionate share of the net OPEB liability	\$2,722,351	\$2,027,847	\$1,478,961
	1% Decrease	Current Trend Rate	1% Increase
School District's proportionate share of the net OPEB liability	\$1,408,861	\$2,027,847	\$2,842,504

**Note 11 - Employee Benefits**

**Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. All unused vacation, up to a balance not greater than three years accrual, may be carried forward to the succeeding fiscal year. Sick leave may be accumulated up to a maximum of 220 days for classified employees and 225 days for certified employees. Upon retirement, payment is made for 30 and 35 percent of accrued but unused sick leave credit at their daily rate upon retirement for classified and certified employees, respectively.

**Deferred Compensation Plan**

Employees may elect to participate in the Ohio Public Employees Deferred Compensation Plan in accordance with Internal Revenue Code Section 457. The employees may also participate in a qualified annuity plan, sponsored by multiple providers, in accordance with Internal Revenue Code Section 403(b). Participation is on a voluntary payroll deduction basis. The plans permit deferral of compensation until future years. According to the plans, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
**(Continued)**

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**Note 12 - Interfund Activity**

At June 30, 2018, the General Fund made advances out of \$183,800 and received repayments of advances from Nonmajor Governmental Funds of \$181,987.

The General Fund made transfers to Nonmajor Governmental Funds in the amount of \$134,585 during fiscal year 2018. Transfers are used to move General Fund revenues that are used to subsidize various programs in the Food Services Fund and District Managed Student Activities Fund. The transfers between the Nonmajor Governmental Funds in the amount of \$275,457 was to close out the Debt Service fund and put the unspent fund balance into the Permanent Improvement fund.

**Note 13 - Jointly Governed Organizations and Insurance Purchasing Pools**

**Jointly Governed Organizations**

*Southwest Ohio Computer Association*

The School District is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public school districts within the boundaries of Butler, Clinton, Hamilton, Montgomery, Warren, and Preble Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SWOCA consists of one representative from each district plus one representative from the fiscal agent. The Board exercises total control over the operations of the association including budgeting, appropriating, contracting and designation of management. Each school district's degree of control is limited to its representation on the Board. The School District paid SWOCA \$68,449 for services provided during the fiscal year. Financial information can be obtained from Donna Davis Norris, Executive Director of SWOCA at 3611 Hamilton-Middletown Road, Hamilton, Ohio 45011.

*Southwestern Ohio Educational Purchasing Council*

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of over 100 school districts and educational service centers in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services, including dental insurance, commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. The Board exercises total control over the operations of the council including budgeting, appropriating, contracting and designation of management. Each school district's degree of control is limited to its representation on the Board. Title to any and all equipment, furniture, and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year's prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations.

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
**(Continued)**

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Payments to SOEPC are made from the General Fund. During fiscal year 2018, the School District did not contribute to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

*Preble County Professional Development Consortium*

The School District is a participant in the Preble County Professional Development Consortium (PCPDC). PCPDC is an association of public school districts within the boundaries of Preble County. The organization was formed to improve staff development and instructional functions by making optimum use of public funds through cooperation of member public school districts. The governing board of PCPDC consists of one representative from each district plus one representative from the fiscal agent. The Board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the Board. The Educational Service Center did not make any payments to PCPDC during the fiscal year. Financial information can be obtained from Kerry M. Borger, Treasurer, Preble County Educational Service Center, 597 Hillcrest Drive, Eaton, Ohio 45320 or email at [kerry.borger@preblecountyesc.org](mailto:kerry.borger@preblecountyesc.org).

On July 1, 2017 the PCPDC ceased operation; however, no formal action has been taken to dissolve the jointly governed organization.

**Insurance Purchasing Pools**

*Ohio SchoolComp Group Retro Rating Plan*

The School District participates in the Ohio SchoolComp Group Retro Rating Plan (GRP) sponsored by the Ohio School Board's Association and Ohio Association of School Business Officials for workers' compensation, an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven-member Board of directors. The Executive Director of the group, or his designee, serves as coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

*Ohio School Plan*

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The OSP was created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the sole purpose of enabling members of the OSP to provide for a formalized, jointly administered self-insurance program to maintain adequate self-insurance protection, risk management programs, and other administrative services. The OSP's business and affairs are conducted by a 13-member Board of Directors, consisting of school district superintendents and treasurers. The OSP has an agreement with Hylant Administrative Services, LLC to provide underwriting, claims management, risk management, accounting, system support services, sales, and marketing to the OSP. Hylant Administrative Services, LLC also coordinates reinsurance brokerage services for the OSP.

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
**(Continued)**

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**Note 14 - Shared Risk Pool**

*Preble County Schools Regional Council of Governments*

The Preble County Schools Regional Council of Governments (the “Council”), a shared risk pool, was formed by five local school districts and the Preble County Educational Service Center for the purpose of achieving lower rates for medical insurance. The Council is governed by an advisory committee consisting of each member’s superintendent or designee from each participating school district. Premiums are paid on a monthly basis to the Council and their designated insurance company. The Council is responsible for the operation and maintenance of the program. If the premiums are insufficient to pay the program costs for the fiscal year, the Council may assess additional charges to all participants. The Preble County Educational Service Center serves as coordinator of the Council. Financial information can be obtained from Kerry Borger, who serves as Fiscal Officer, at 597 Hillcrest Drive, Eaton, Ohio 45320.

Effective October 2017, the School District is no longer a participant in the Preble County Schools Regional Council of Governments.

*Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust*

The Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (Trust) is a public entity shared risk pool consisting of approximately 130 School Districts. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and vision insurance benefits to the employees of the participants. The Trust is governed by the Southwestern Ohio Educational Purchasing Cooperative and its participating members. Each participant decides which plans offered by the Trust will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Trust and payment of the monthly premiums. Financial information can be obtained from the Southwestern Ohio Educational Purchasing Cooperative, 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

**Note 15 - Set-Aside Calculations**

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

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



**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
**(Continued)**

	Capital Improvements
Set-aside Restricted Balance as of June 30, 2017	\$0
Current Fiscal Year Set-aside Requirement	239,391
Qualifying Disbursements	(51,868)
Current Fiscal Year Offsets	(24,567)
<i>Totals</i>	\$162,956
<i>Set-aside Balance Carried Forward to Future Fiscal Years</i>	\$162,956

**Note 16 - Fund Balances**

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b><i>Restricted for</i></b>			
Classroom Facilities Maintenance	\$0	\$1,057,786	\$1,057,786
District Managed Activities	0	9,843	9,843
Federal and State Grants	0	10,245	10,245
Set Asides	162,956	0	162,956
<i>Total Restricted</i>	\$162,956	\$1,077,874	\$1,240,830

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
**(Continued)**

<i>Committed to</i>			
Purchases on Order	\$525,054	\$0	\$525,054
Employee Reimbursements	<u>361,384</u>	<u>0</u>	<u>361,384</u>
<i>Total Committed</i>	<u>886,438</u>	<u>0</u>	<u>886,438</u>
<i>Assigned to</i>			
Capital Improvements	0	275,457	275,457
Purchases on Order	<u>28,094</u>	<u>0</u>	<u>28,094</u>
<i>Total Assigned</i>	28,094	275,457	303,551
<i>Unassigned</i>	<u>14,774,260</u>	<u>0</u>	<u>14,774,260</u>
<i>Total Fund Balances</i>	<u><u>\$15,851,748</u></u>	<u><u>\$1,353,331</u></u>	<u><u>\$17,205,079</u></u>

**Note 17 – Significant Commitments**

**Encumbrances**

Encumbrances are commitments related to unperformed contracts for goods and services. Encumbrances accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year-end, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General Fund	\$553,149
Nonmajor Governmental Funds	<u>7,200</u>
Total	<u><u>\$560,349</u></u>

**Note 18 - Contingencies**

**Grants**

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

**Preble Shawnee Local School District**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2018  
**(Continued)**

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**Litigation**

The School District is not currently a party to any legal proceedings.

**Note 19 - Compliance**

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

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**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT  
PREBLE COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

<b>FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Entity Identifying Number</b>	<b>Total Federal Expenditures</b>	<b>Total Federal Noncash Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
<i>Passed Through Ohio Department of Education</i>				
Child Nutrition Cluster:				
School Breakfast Program	10.553	N/A	\$ 133,028	
National School Lunch Program	10.555	N/A	268,101	30,780
Total Child Nutrition Cluster			<u>401,129</u>	<u>30,780</u>
Child Nutrition Discretionary Grants Limited Availability	10.579	N/A	<u>10,500</u>	
Total U.S. Department of Agriculture			<u>411,629</u>	<u>30,780</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>				
<i>Passed Through Ohio Department of Education</i>				
Title I Grants to Local Educational Agencies	84.010	S010A170035	300,068	
Special Education Cluster (IDEA):				
Special Education Grants to States	84.027	H027A170111	277,096	
Special Education Preschool Grants	84.173	H173A170119	3,663	
Total Special Education Cluster (IDEA)			<u>280,759</u>	
Supporting Effective Instruction State Grants	84.367	S637A170034	51,711	
Student Support and Academic Enrichment Program	84.424	S424A170036	<u>10,000</u>	
Total U.S. Department of Education			<u>642,538</u>	
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,054,167</u>	<u>\$ 30,780</u>

*The accompanying notes are an integral part of this schedule.*

**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT  
PREBLE COUNTY**

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

**NOTE A – BASIS OF PRESENTATION**

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

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

**NOTE C – INDIRECT COST RATE**

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

**NOTE D - CHILD NUTRITION CLUSTER**

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

**NOTE E – FOOD DONATION PROGRAM**

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



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

Preble Shawnee Local School District  
Preble County  
124 Bloomfield Street  
Camden, Ohio 45311

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the modified cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Preble Shawnee Local School District, Preble County (the District) as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 21, 2019, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

***Internal Control Over Financial Reporting***

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

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

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

***Compliance and Other Matters***

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

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

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

***Purpose of this Report***

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



Keith Faber  
Auditor of State  
Columbus, Ohio

May 21, 2019





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

Preble Shawnee Local School District  
Preble County  
124 Bloomfield Street  
Camden, Ohio 45311

To the Board of Education:

***Report on Compliance for each Major Federal Program***

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

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Basis for Qualified Opinion on Special Education Cluster***

As described in finding 2018-003 in the accompanying schedule of findings, the District did not comply with requirements regarding cash management applicable to its CFDA 84.027/84.173 Special Education Cluster major federal program. Compliance with this requirement is necessary, in our opinion, for the District to comply with requirements applicable to this program.

### ***Qualified Opinion on Special Education Cluster***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Special Education Cluster* paragraph, the Preble Shawnee Local School District complied, in all material respects, with the requirements referred to above that could directly and materially affect its Special Education Cluster program for the year ended June 30, 2018.

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

### ***Unmodified Opinion on the Other Major Federal Program***

In our opinion, Preble Shawnee Local School District complied in all material respects with the requirements referred to above that could directly and materially affect its other major federal program identified in the *Summary of Auditor's Results* section of the accompanying schedule of findings for the year ended June 30, 2018.

### ***Report on Internal Control Over Compliance***

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness, described in the accompanying schedule of findings as item 2018-003.

The District's response to our internal control over compliance finding is described in the accompanying corrective action plan. We did not subject the District's response to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Preble Shawnee Local School District  
Preble County  
Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Federal Program and on Internal Control  
Over Compliance Required by the Uniform Guidance  
Page 3

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

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive style with a large, stylized initial "K".

Keith Faber  
Auditor of State  
Columbus, Ohio

May 21, 2019

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**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT  
PREBLE COUNTY**

**SCHEDULE OF FINDINGS  
2 C.F.R. § 200.515  
JUNE 30, 2018**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>
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<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unmodified
<i>(d)(1)(ii)</i>	<b>Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(ii)</i>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any material weaknesses in internal control reported for major federal programs?</b>	Yes
<i>(d)(1)(iv)</i>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Qualified – Special Education Cluster Unmodified – Child Nutrition Cluster
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under 2 C.F.R. § 200.516(a)?</b>	Yes
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Child Nutrition Cluster  Special Education Cluster
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee under 2 C.F.R. § 200.520?</b>	No

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

**FINDING NUMBER 2018-001**

**Noncompliance**

**Ohio Rev. Code § 117.38** provides, in part, that each public office shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Admin. Code § 117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38.

**Ohio Admin. Code § 117-2-03(B)** requires the District to file its annual financial report which is prepared using generally accepted accounting principles (GAAP). However, the District prepared its financial statements on a modified cash basis that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumed material, cannot be determined at this time.

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

**Officials' Response:** See the Corrective Action Plan on page 62.

**FINDING NUMBER 2018-002**

**Material Weakness**

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

The District's financial statements contained the following error, which was material and resulted in adjustments to the financial statements. No adjustment to the accounting system was required.

- The Permanent Improvement Fund (Fund 003) was incorrectly classified as part of the General Fund for reporting purposes. As such, Transfers In and Cash/Fund Balance at End of Year were both overstated by \$275,457 for the General Fund. Transfers In and Cash/Fund Balance at End of Year were both understated by those same amounts for Nonmajor Governmental Funds.

Failure to properly report financial activity can result in inaccurate financial statements and misleading financial information. The District should establish and implement procedures to verify that the District's annual financial report is reviewed to determine that the financial activity is properly reported.

**Officials' Response:** See the Corrective Action Plan on page 62.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
--

**Noncompliance and Material Weakness**

<b>Finding Number</b>	2018-003		
<b>CFDA Title and Number</b>	Special Education Cluster: Special Education Grants to States CFDA #84.027 Special Education Preschool Grants CFDA #84.173		
<b>Federal Award Identification Number / Year</b>	H027A170111/ 2018 H173A170119/2018		
<b>Federal Agency</b>	U.S. Department of Education		
<b>Compliance Requirement</b>	Cash Management		
<b>Pass-Through Entity</b>	Ohio Department of Education		
<b>Repeat Finding from Prior Audit?</b>	No	<b>Finding Number (if repeat)</b>	N/A

Under the authority of **2 C.F.R § 3474.1** and except as otherwise provided by this section, the Department of Education adopted the Office of Management and Budget (OMB) Guidance in 2 CFR part 200. Thus, this part gives regulatory effect to the OMB guidance and supplements the guidance as needed for the Department. **2 C.F.R. § 200.305(b)** states, in part, that for non-Federal entities other than states, payment methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means.

**2 C.F.R. § 200.305(b)(1)** states the non-Federal entity must be paid in advance, provided it maintains or demonstrates the willingness to maintain both written procedures that minimize the time elapsing between the transfer of funds and disbursement by the non-Federal entity, and financial management systems that meet the standards for fund control and accountability as established in this Part. Advance payments to a non-Federal entity must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the non-Federal entity in carrying out the purpose of the approved program or project. The timing and amount of advance payments must be as close as is administratively feasible to the actual disbursements by the non-Federal entity for direct program or project costs and the proportionate share of any allowable indirect costs. The non-Federal entity must make timely payment to contractors in accordance with the contract provisions.

**2 C.F.R. § 200.305(b)(2)(ii)** states that Non-Federal entities must be authorized to submit requests for advance payments and reimbursements at least monthly when electronic fund transfers are not used, and as often as they like when electronic transfers are used, in accordance with the provisions of the Electronic Fund Transfer Act (15 U.S.C. 1693-1693r).

**The Ohio Department of Education (ODE) Grants Management Guidance 2015-004** states, in part, the timing and amount of advance payments must be as close as is administratively feasible to the actual disbursements by the non-Federal entity. Therefore, when requesting advance funds, non-Federal entities must now liquidate cash advances within five business days after receiving the funds. To help prevent districts from running a deficit in funds due to the five-day liquidation rule and to also comply with **2 C.F.R. § 200.305(b)(2)(ii)**, multiple advances can now be requested in a one month period.

**FINDING NUMBER 2018-003**  
**(Continued)**

Advances should only be requested to cover expenses that are ready to be paid. Advances can be requested to cover payroll expenses and invoices that have been received and will be paid within five business days of receiving grant funds. Advances should not be requested for encumbrances in which services and invoices have not been received unless you are certain that you will receive and pay the invoice within these established guidelines.

During fiscal year 2018, the District failed to expend funds within the required time frame of five business days for one of five (20%) Special Education Grants to States federal program receipt examined (funds were received on June 12, 2018 and not liquidated by June 30, 2018).

The District should implement procedures to verify that all receipts of federal monies are expended within the required time frame as outlined in the grant agreement. Failure to do so could result in noncompliance with Federal grant agreements and possible loss of future federal funding.

**Officials' Response:** See the Corrective Action Plan on page 62.



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

Finding Number	Finding Summary	Status	Additional Information
2017-001	<p><b>Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B)</b> – Failure to prepare financial statements in accordance with general accepted accounting principles. Finding initially occurred in fiscal year 2006.</p>	Not Corrected	<p>Reissued as Finding 2018-001. The District prepares OCBOA modified-cash basis financial statements. See the following Corrective Action Plan.</p>

**CORRECTIVE ACTION PLAN**  
**2 CFR § 200.511(c)**  
**JUNE 30, 2018**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2018-001	Several years ago the School District changed to modified cash basis of accounting in order to save money. At this point it would be expensive to switch back to generally accepted accounting principles. No corrective action deemed necessary.	N/A	Lori Green, Treasurer
2018-002	The District has established and implemented procedures to verify all financial activity is properly reported. Fund 003 was incorrectly classified due to inexperience in my position at the time audit was conducted by LGS.	N/A	Lori Green, Treasurer
2018-003	As a general rule, the District will not be initiating advances for grants. If the need arises, advances will be requested within the five business days of the expense to comply with Federal grant agreements.	N/A	Lori Green, Treasurer

# OHIO AUDITOR OF STATE KEITH FABER



**PREBLE SHAWNEE LOCAL SCHOOL DISTRICT**

**PREBLE 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  
JULY 16, 2019**