

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS  
(AUDITED)**

*FOR THE FISCAL YEAR ENDED  
JUNE 30, 2018*



# OHIO AUDITOR OF STATE KEITH FABER



Board of Education  
South Central Local School District  
3305 Greenwich Angling Road  
Greenwich, OH 44837

We have reviewed the *Independent Auditor's Report* of South Central Local School District, Huron County, prepared by Julian & Grube, Inc., for the audit period July 1, 2017 through June 30, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. South Central Local School District is responsible for compliance with these laws and regulations.

Ohio Auditor of State

A handwritten signature in cursive script that reads "Keith Faber".

January 15 2019

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**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

TABLE OF CONTENTS

Independent Auditor’s Report .....	1 - 2
Management’s Discussion and Analysis .....	3 - 16
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	17
Statement of Activities.....	18
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	19
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities .....	20
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	22
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund.....	23
Statement of Fiduciary Net Position - Fiduciary Funds .....	24
Statement of Changes in Fiduciary Net Position - Fiduciary Fund .....	25
Notes to the Basic Financial Statements.....	26 - 68
Required Supplementary Information:	
Schedule of the District’s Proportionate Share of the Net Pension Liability:	
School Employees Retirement System (SERS) of Ohio .....	69
State Teachers Retirement System (STRS) of Ohio .....	70
Schedule of District Pension Contributions:	
School Employees Retirement System (SERS) of Ohio .....	71 - 72
State Teachers Retirement System (STRS) of Ohio .....	73 - 74
Schedule of the District’s Proportionate Share of the Net OPEB Liability:	
School Employees Retirement System (SERS) of Ohio .....	75
State Teachers Retirement System (STRS) of Ohio .....	76
Schedule of District OPEB Contributions:	
School Employees Retirement System (SERS) of Ohio .....	77 - 78
State Teachers Retirement System (STRS) of Ohio .....	79 - 80
Notes to the Required Supplementary Information .....	81 - 82
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	83 - 84

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**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

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Independent Auditor's Report

South Central Local School District  
Huron County  
3305 Greenwich Angling Road  
Greenwich, Ohio 44837

To the Board of Education:

***Report on the Financial Statements***

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

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

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the South Central Local School 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 South Central Local School 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 financial position of the governmental activities, its major fund, and the aggregate remaining fund information of the South Central Local School District, Huron County, Ohio, as of June 30, 2018, and the respective changes in financial position thereof and the budgetary comparison for the General fund thereof for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 3 to the financial statements, during fiscal year 2018, the South Central Local School District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

***Other Matters***

***Required Supplementary Information***

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2018, on our consideration of the South Central Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 South Central Local School District's internal control over financial reporting and compliance.



Julian & Grube, Inc.  
November 28, 2018



**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

**Financial Highlights**

Key financial highlights for fiscal year 2018 are as follows:

- In total, net position of governmental activities increased \$5,186,364 which represents a 69.94% decrease from 2017's restated net position.
- General revenues accounted for \$9,026,403 in revenue or 81.62% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,033,251 or 18.38% of total revenues of \$11,059,654.
- The District had \$5,873,290 in expenses related to governmental activities; \$2,033,251 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$9,026,403 were adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$10,133,892 in revenues and other financing sources and \$9,716,742 in expenditures and other financing uses. During fiscal year 2018, the general fund's fund balance increased \$417,150 from a balance of \$3,223,198 to \$3,640,348.

**Using the Basic Financial Statements (BFS)**

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

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

**Reporting the District as a Whole**

***Statement of Net Position and the Statement of Activities***

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

In the statement of net position and the statement of activities, the governmental activities include the District's programs and services, including instruction, support services, operation and maintenance, pupil transportation, extracurricular activities, food service operations and interest and fiscal charges.

The District's statement of net position and statement of activities can be found on pages 17-18 of this report.

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

The analysis of the District's major governmental funds begins on page 13. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental fund is the general fund.

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets than can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 19-23 of this report.

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 24 and 25. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 26-68 of this report.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

***Required Supplementary Information***

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability. The required supplementary information can be found on pages 69 through 82 of this report.

**The District as a Whole**

The table on the following page provides a summary of the District's net position at June 30, 2018 and June 30, 2017. The net position at June 30, 2017 has been restated as described in Note 3.A.

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**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<b>Net Position</b>	
	Governmental Activities 2018	Restated Governmental Activities 2017
<b><u>Assets</u></b>		
Current and other assets	\$ 6,612,052	\$ 6,322,804
Capital assets, net	4,878,825	5,039,349
Total assets	<u>11,490,877</u>	<u>11,362,153</u>
<b><u>Deferred Outflows of Resources</u></b>		
Unamortized deferred charges on debt refunding	-	755
Pension	3,952,003	2,869,432
OPEB	227,904	20,088
Total deferred outflows of resources	<u>4,179,907</u>	<u>2,890,275</u>
<b><u>Liabilities</u></b>		
Current liabilities	1,027,095	1,107,325
Long-term liabilities:		
Due within one year	53,709	276,225
Due in more than one year:		
Net pension liability	11,282,445	14,797,298
Other amounts	755,060	900,435
Net OPEB liability	2,487,457	2,958,295
Total liabilities	<u>15,605,766</u>	<u>20,039,578</u>
<b><u>Deferred Inflows of Resources</u></b>		
Property taxes levied for next year	1,534,485	1,486,176
Pensions	478,120	141,765
OPEB	281,140	-
Total deferred inflows of resources	<u>2,293,745</u>	<u>1,627,941</u>
<b><u>Net Position</u></b>		
Net investment in capital assets	4,771,164	4,705,519
Restricted	244,141	332,080
Unrestricted (deficit)	<u>(7,244,032)</u>	<u>(12,452,690)</u>
Total net position (deficit)	<u>\$ (2,228,727)</u>	<u>\$ (7,415,091)</u>

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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

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

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

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

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

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

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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

As a result of implementing GASB 75, the District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from a deficit of \$4,476,884 to \$7,415,091.

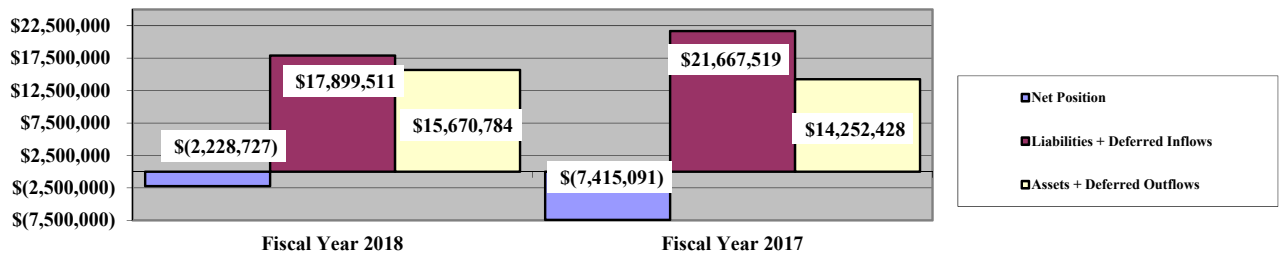
Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018, the District's liabilities plus deferred inflows of resources exceeded assets plus deferred outflows of resources by \$2,228,727. At year end, unrestricted net position was a deficit of \$7,244,032.

At year-end, capital assets represented 42.46% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Net investment in capital assets at June 30, 2018 was \$4,771,164. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$244,141 represents resources that are subject to external restriction on how they may be used.

The graph below illustrates the District's governmental activities assets and deferred outflows of resources, liabilities and deferred inflows of resources and net position at June 30, 2018 and June 30, 2017. The net position at June 30, 2017 has been restated as described in Note 3.A.

**Governmental Activities**



**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

The table below shows the change in net position for fiscal year 2018 compared to fiscal year 2017. The net position at June 30, 2017 has been restated as described in Note 3.A.

	<b>Change in Net Position</b>	
	Governmental Activities <u>2018</u>	Restated Governmental Activities <u>2017</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 1,002,164	\$ 847,900
Operating grants and contributions	1,031,087	1,113,848
General revenues:		
Property taxes	1,851,932	1,935,611
School district income taxes	1,116,593	1,125,229
Grants and entitlements	5,981,313	5,987,130
Investment earnings	56,261	23,855
Miscellaneous	<u>20,304</u>	<u>52,691</u>
Total revenues	<u>11,059,654</u>	<u>11,086,264</u>

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**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**Change in Net Position**

	Governmental Activities 2018	Restated Governmental Activities 2017
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	1,961,655	4,877,994
Special	480,543	792,624
Vocational	68,473	146,161
Other	875,128	1,122,993
Support services:		
Pupil	204,378	358,629
Instructional staff	129,674	387,325
Board of education	16,991	78,354
Administration	369,887	907,931
Fiscal	197,762	278,777
Operations and maintenance	631,751	896,875
Pupil transportation	426,707	649,576
Central	14,368	8,518
Operations of non-instructional services:		
Food service operations	269,798	406,860
Other non-instructional services	23,488	21,256
Extracurricular activities	196,170	358,526
Interest and fiscal charges	6,517	10,674
Total expenses	<u>5,873,290</u>	<u>11,303,073</u>
Change in net position	5,186,364	(216,809)
Net position (deficit) at beginning of year	<u>(7,415,091)</u>	N/A
Net position (deficit) at end of year	<u>\$ (2,228,727)</u>	<u>\$ (7,415,091)</u>

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$20,088 computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$370,526. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:



**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Total 2018 program expenses under GASB 75	\$ 5,873,290
Negative OPEB expense under GASB 75	370,526
2018 contractually required contributions	<u>26,988</u>
Adjusted 2018 program expenses	6,270,804
Total 2017 program expenses under GASB 45	<u>11,303,073</u>
Decrease in program expenses not related to OPEB	<u>\$ (5,032,269)</u>

**Governmental Activities**

Net position of the District’s governmental activities increased \$5,186,364. Total governmental expenses of \$5,873,290 were offset by program revenues of \$2,033,251 and general revenues of \$9,026,403. Program revenues supported 34.62% of the total governmental expenses.

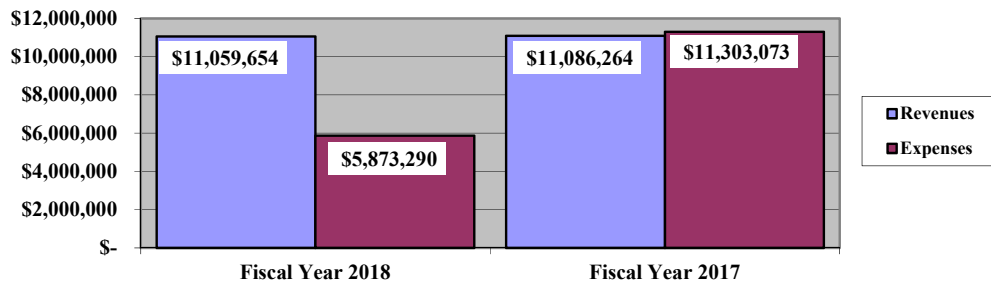
Expenses of the governmental activities decreased \$5,429,783 or 48.04%. This decrease is primarily the result of the State Teachers Retirement System (STRS) indefinitely suspending the Cost of Living Adjustment (“COLA”) and the School Employees Retirement System (SERS) lowering the COLA from 3.00% to 2.50%. On an accrual basis, the District reported (\$3,460,074) in pension expense and (\$370,526) in OPEB expense mainly due to these benefit changes.

The primary sources of revenue for governmental activities are derived from property taxes, and unrestricted grants and entitlements not restricted to specific programs. These revenue sources represent 70.83% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$3,385,799 or 57.65% of total governmental expenses for fiscal year 2018.

The graph below presents the District’s governmental activities revenue and expenses for fiscal years 2018 and 2017.

**Governmental Activities - Revenues and Expenses**



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue, unrestricted State grants and entitlements, and other general revenues of the District.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

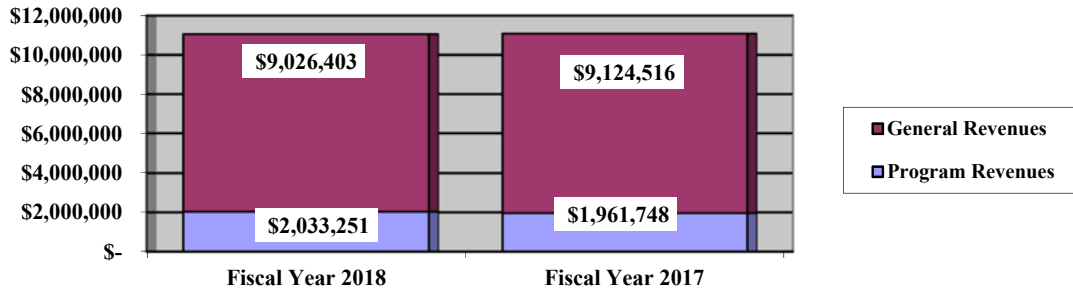
**Governmental Activities**

	Total Cost of Services <u>2018</u>	Net Cost of Services <u>2018</u>	Total Cost of Services <u>2017</u>	Net Cost of Services <u>2017</u>
<b>Program expenses</b>				
Instruction:				
Regular	\$ 1,961,655	\$ 1,147,773	\$ 4,877,994	\$ 4,133,753
Special	480,543	(82,352)	792,624	159,376
Vocational	68,473	(25,563)	146,161	106,699
Other	875,128	875,128	1,122,993	1,122,993
Support services:				
Pupil	204,378	198,254	358,629	349,546
Instructional staff	129,674	126,775	387,325	384,723
Board of education	16,991	16,991	78,354	78,354
Administration	369,887	369,887	907,931	907,931
Fiscal	197,762	197,762	278,777	278,777
Operations and maintenance	631,751	631,751	896,875	896,875
Pupil transportation	426,707	397,591	649,576	624,707
Central	14,368	14,368	8,518	8,518
Operations of non-instructional services:				
Food service operations	269,798	(67,596)	406,860	73,417
Other non-instructional services	23,488	23,488	21,256	21,256
Extracurricular activities	196,170	9,265	358,526	183,726
Interest and fiscal charges	<u>6,517</u>	<u>6,517</u>	<u>10,674</u>	<u>10,674</u>
Total expenses	<u>\$ 5,873,290</u>	<u>\$ 3,840,039</u>	<u>\$ 11,303,073</u>	<u>\$ 9,341,325</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 56.56% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 65.38%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2018 and 2017.

**Governmental Activities - General and Program Revenues**



**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**The District's Funds**

The District's governmental funds reported a combined fund balance of \$3,785,181 which is more than last year's fund balance of \$3,468,528. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2018 and 2017.

	Fund Balance <u>June 30, 2018</u>	Fund Balance <u>June 30, 2017</u>	Increase <u>(Decrease)</u>
General	\$ 3,640,348	\$ 3,223,198	\$ 417,150
Non-major governmental	<u>144,833</u>	<u>245,330</u>	<u>(100,497)</u>
Total	<u>\$ 3,785,181</u>	<u>\$ 3,468,528</u>	<u>\$ 316,653</u>

**General Fund**

The District's general fund balance increased \$417,150. The table that follows assists in illustrating the financial activities of the general fund.

	2018 <u>Amount</u>	2017 <u>Amount</u>	Percentage <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 2,908,320	\$ 2,957,992	(1.68) %
Tuition	644,603	547,256	17.79 %
Earnings on investments	54,982	22,305	146.50 %
Intergovernmental	6,370,673	6,421,380	(0.79) %
Other revenues	<u>145,052</u>	<u>109,987</u>	31.88 %
Total	<u>\$ 10,123,630</u>	<u>\$ 10,058,920</u>	0.64 %
<b><u>Expenditures</u></b>			
Instruction	\$ 6,015,751	\$ 6,157,375	(2.30) %
Support services	3,105,744	3,343,466	(7.11) %
Operation of non-instructional services	23,488	21,256	10.50 %
Extracurricular activities	240,483	220,368	9.13 %
Debt service	<u>286,026</u>	<u>121,826</u>	134.78 %
Total	<u>\$ 9,671,492</u>	<u>\$ 9,864,291</u>	(1.95) %

Tuition revenues increased 17.79% due to an increase in open enrollment during the fiscal year. Earnings on investments increased 146.50% due to an increase in the amount of investments held by the District.

Overall expenditures of the general fund decreased \$192,799 or 1.95%. This increase is mainly attributable to the decrease in instruction services of 2.30% and a decrease in support services of 7.11%. The District's decrease in instructional expenditures can be attributed to a decrease in regular and other instructional expenditures. The decrease in support services can be attributed to a decrease pupil transportation expenditures.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

***General Fund Budgeting Highlights***

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

For the general fund, final budgeted revenues and other financing sources were \$10,243,396, which was \$637,030 more than original budgeted revenues and other financing sources of \$9,606,366. Actual revenues and other financing sources for fiscal year 2018 were \$10,053,765 which was \$189,631 less than the final budget revenues and other financing sources.

General fund original appropriations of \$11,519,828 were increased to \$11,502,571 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2018 totaled \$9,764,814 which was \$1,737,757 less than the final budgeted expenditures and other financing uses.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2018, the District had \$4,878,825 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities.

The following table shows fiscal year 2018 balances compared to 2017 balances:

	<b>Capital Assets at June 30 (Net of Depreciation)</b>	
	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Land	\$ 37,245	\$ 37,245
Land improvements	364,907	398,534
Buildings and improvements	4,180,171	4,290,447
Furniture and equipment	80,932	61,745
Vehicles	<u>215,570</u>	<u>251,378</u>
Total	<u>\$ 4,878,825</u>	<u>\$ 5,039,349</u>

The overall decrease in capital assets of \$160,524 is due to depreciation expense of \$253,198 exceeding capital asset additions of \$92,674 for the fiscal year.

See Note 9 to the basic financial statements for additional information regarding the District's capital assets.

***Debt Administration***

At June 30, 2018, the District had \$107,661 in lease obligations outstanding. Of this total, \$33,657 is due within one year and \$74,004 is due in greater than one year. The following table summarizes the leases and bonds outstanding:

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**Outstanding Debt, at Year End**

	<u>Governmental Activities 2018</u>	<u>Governmental Activities 2017</u>
Classroom facilities improvement bond	\$ -	\$ 165,000
HB264 Loan - Energy conservation project	-	208,947
Lease obligations	<u>107,661</u>	<u>165,905</u>
<b>Total</b>	<b><u>\$ 107,661</u></b>	<b><u>\$ 539,852</u></b>

At June 30, 2018, the District's overall legal debt margin was \$8,859,436 with an unvoted debt margin of \$98,438. See Note 11 for details of the District's long-term obligations.

**Current Financial Related Activities**

The District has been able to use a very conservative financial approach. The District operates at the 20 mill floor and has an inside millage rate of 4.5. The District does benefit from a 1.25% income tax that was passed in 1992 and is for a continuing period of time. There have been no requests for new operating levies by the District to its voters since 1992.

The Board and administration closely monitor expenditures to stay in line with the five-year financial forecast. Cuts to operating budgets and attrition in staffing throughout the District have been implemented during the past years to avoid the need to seek additional money from the community. Rising health care insurance costs, operating costs, teachers' salary increases and inconsistencies in the State legislature's funding for schools have made the "balancing act" a difficult one.

The Board and the administration have continued to monitor the State funding issue for schools. The District has experienced decreased enrollment over the past few years. Another factor of student enrollment that has effected school funding is an increase in the number of students that are attending the vocational school students leaving the district due to open enrollment, and those attending online public "charter or community" schools.

The District continues to closely monitor revenues. The income tax revenues have begun to improve and are showing increases but have not reached pre-recession levels. The District does not have a permanent improvement levy and must use general fund dollars to fund major capital improvements. The goal of the District remains to provide the best possible education for the dollars available.

The District relies on property taxes, entitlements and grants. Property Tax revenues have increased slightly due to a change in the Current Agricultural Use Value (CAUV) valuations. The reimbursement of the Tangible Property Tax was completely phased out by fiscal year 2013 instead of phasing out over the years until fiscal year 2018. Federal grants are decreasing. Expenditures are increasing. The majority of the tax revenue is derived from real estate and farming. The District is mainly rural and has a very small industrial base. After the end of fiscal year 2013, the District initiated a reduction in force to help reduce deficit spending. This included three teachers, five bus drivers, one custodian and one aide. Various supplementals were also suspended.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Mrs. Christina Warrick, Treasurer of South Central Local School District at 3305 Greenwich Angling Road, Greenwich, Ohio 44837.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

STATEMENT OF NET POSITION  
JUNE 30, 2018

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and investments. . . . .	\$ 4,052,359
Receivables:	
Property taxes . . . . .	1,947,487
Income taxes. . . . .	459,339
Accounts. . . . .	563
Accrued interest . . . . .	1,643
Intergovernmental . . . . .	132,937
Prepayments . . . . .	8,705
Materials and supplies inventory. . . . .	3,760
Inventory held for resale. . . . .	5,259
Capital assets:	
Nondepreciable capital assets . . . . .	37,245
Depreciable capital assets, net. . . . .	4,841,580
Capital assets, net . . . . .	4,878,825
Total assets. . . . .	11,490,877
 <b>Deferred outflows of resources:</b>	
Pension . . . . .	3,952,003
OPEB . . . . .	227,904
Total deferred outflows of resources . . . . .	4,179,907
 <b>Liabilities:</b>	
Accounts payable. . . . .	28,172
Accrued wages and benefits payable . . . . .	799,135
Intergovernmental payable . . . . .	27,752
Pension and postemployment benefits payable. . . . .	171,180
Accrued interest payable . . . . .	856
Long-term liabilities:	
Due within one year. . . . .	53,709
Due in more than one year:	
Net pension liability (See Note 14) . . . . .	11,282,445
Other amounts due in more than one year . . . . .	755,060
Net OPEB liability (See Note 15) . . . . .	2,487,457
Total liabilities . . . . .	15,605,766
 <b>Deferred inflows of resources:</b>	
Property taxes levied for the next fiscal year. . . . .	1,534,485
Pension. . . . .	478,120
OPEB. . . . .	281,140
Total deferred inflows of resources . . . . .	2,293,745
 <b>Net position:</b>	
Net investment in capital assets . . . . .	4,771,164
Restricted for:	
Capital projects . . . . .	132,899
Classroom facilities maintenance . . . . .	41,616
Locally funded programs . . . . .	4,867
State funded programs. . . . .	929
Federally funded programs . . . . .	17,450
Student activities . . . . .	46,380
Unrestricted (deficit) . . . . .	(7,244,032)
Total net position (deficit). . . . .	\$ (2,228,727)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 1,961,655	\$ 611,072	\$ 202,810	\$ (1,147,773)
Special . . . . .	480,543	51,338	511,557	82,352
Vocational . . . . .	68,473	55,052	38,984	25,563
Other . . . . .	875,128	-	-	(875,128)
Support services:				
Pupil . . . . .	204,378	-	6,124	(198,254)
Instructional staff . . . . .	129,674	-	2,899	(126,775)
Board of education . . . . .	16,991	-	-	(16,991)
Administration . . . . .	369,887	-	-	(369,887)
Fiscal . . . . .	197,762	-	-	(197,762)
Operations and maintenance . . . . .	631,751	-	-	(631,751)
Pupil transportation . . . . .	426,707	-	29,116	(397,591)
Central . . . . .	14,368	-	-	(14,368)
Operation of non-instructional services:				
Other non-instructional services . . . . .	23,488	-	-	(23,488)
Food service operations . . . . .	269,798	97,797	239,597	67,596
Extracurricular activities . . . . .	196,170	186,905	-	(9,265)
Interest and fiscal charges . . . . .	6,517	-	-	(6,517)
<b>Total governmental activities . . . . .</b>	<b>\$ 5,873,290</b>	<b>\$ 1,002,164</b>	<b>\$ 1,031,087</b>	<b>(3,840,039)</b>
<b>General revenues:</b>				
Property taxes levied for:				
General purposes . . . . .				1,770,965
Debt service . . . . .				6,978
Special revenue . . . . .				4,901
Capital projects . . . . .				69,088
Income taxes levied for:				
General purposes . . . . .				1,116,593
Grants and entitlements not restricted to specific programs . . . . .				
Investment earnings . . . . .				56,261
Miscellaneous . . . . .				20,304
<b>Total general revenues . . . . .</b>				<b>9,026,403</b>
Change in net position . . . . .				5,186,364
<b>Net position (deficit) at beginning of year (restated) . . . . .</b>				<b>(7,415,091)</b>
<b>Net position (deficit) at end of year . . . . .</b>				<b>\$ (2,228,727)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2018

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and investments . . . . .	\$ 3,828,887	\$ 223,472	\$ 4,052,359
Receivables:			
Property taxes . . . . .	1,849,699	97,788	1,947,487
Income taxes . . . . .	459,339	-	459,339
Accounts . . . . .	563	-	563
Accrued interest . . . . .	1,643	-	1,643
Intergovernmental . . . . .	51,173	81,764	132,937
Prepayments . . . . .	8,492	213	8,705
Materials and supplies inventory . . . . .	2,697	1,063	3,760
Inventory held for resale . . . . .	-	5,259	5,259
Total assets . . . . .	<u>\$ 6,202,493</u>	<u>\$ 409,559</u>	<u>\$ 6,612,052</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 23,012	\$ 5,160	\$ 28,172
Accrued wages and benefits payable . . . . .	731,294	67,841	799,135
Intergovernmental payable . . . . .	26,932	820	27,752
Pension and postemployment benefits payable . . . . .	154,583	16,597	171,180
Total liabilities . . . . .	<u>935,821</u>	<u>90,418</u>	<u>1,026,239</u>
<b>Deferred inflows of resources:</b>			
Property taxes levied for the next fiscal year . . . . .	1,446,297	88,188	1,534,485
Delinquent property tax revenue not available . . . . .	88,176	4,356	92,532
Income tax revenue not available . . . . .	77,954	-	77,954
Intergovernmental revenue not available . . . . .	13,897	81,764	95,661
Total deferred inflows of resources . . . . .	<u>1,626,324</u>	<u>174,308</u>	<u>1,800,632</u>
<b>Fund balances:</b>			
Nonspendable:			
Materials and supplies inventory . . . . .	2,697	1,063	3,760
Prepays . . . . .	8,492	213	8,705
Restricted:			
Capital improvements . . . . .	-	128,543	128,543
Classroom facilities maintenance . . . . .	-	41,616	41,616
Other purposes . . . . .	-	5,796	5,796
Extracurricular activities . . . . .	-	46,380	46,380
Assigned:			
Student instruction . . . . .	247	-	247
Student and staff support . . . . .	19,951	-	19,951
Subsequent year's appropriations . . . . .	343,059	-	343,059
Other purposes . . . . .	32,264	-	32,264
Unassigned (deficit) . . . . .	3,233,638	(78,778)	3,154,860
Total fund balances . . . . .	<u>3,640,348</u>	<u>144,833</u>	<u>3,785,181</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 6,202,493</u>	<u>\$ 409,559</u>	<u>\$ 6,612,052</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2018

<b>Total governmental fund balances</b>		\$	3,785,181
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			4,878,825
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	92,532	
Income taxes receivable		77,954	
Intergovernmental receivable		95,661	
Total			266,147
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(856)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/ outflows are not reported in governmental funds:			
Deferred outflows of resources - pension		3,952,003	
Deferred inflows of resources - pension		(478,120)	
Net pension liability		(11,282,445)	
Total			(7,808,562)
The net OPEB liability is not due and payable in the current period; therefore, liability and related deferred inflows are not reported in governmental funds.			
Deferred outflows - OPEB		227,904	
Deferred Inflows - OPEB		(281,140)	
Net OPEB liability		(2,487,457)	
Total			(2,540,693)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Capital lease obligations		(107,661)	
Compensated absences		(701,108)	
Total			(808,769)
<b>Net position of governmental activities</b>		<b>\$</b>	<b>(2,228,727)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Property taxes . . . . .	\$ 1,791,727	\$ 81,065	\$ 1,872,792
Income taxes . . . . .	1,116,593	-	1,116,593
Tuition . . . . .	644,603	-	644,603
Earnings on investments . . . . .	54,982	1,279	56,261
Charges for services . . . . .	-	97,797	97,797
Extracurricular . . . . .	51,889	135,016	186,905
Classroom materials and fees . . . . .	17,807	-	17,807
Contributions and donations . . . . .	16,773	14,192	30,965
Other local revenues . . . . .	58,583	-	58,583
Intergovernmental - state . . . . .	6,370,673	17,726	6,388,399
Intergovernmental - federal . . . . .	-	576,672	576,672
Total revenues . . . . .	<u>10,123,630</u>	<u>923,747</u>	<u>11,047,377</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	4,165,861	209,015	4,374,876
Special . . . . .	843,493	131,638	975,131
Vocational . . . . .	131,269	4,348	135,617
Other . . . . .	875,128	-	875,128
Support services:			
Pupil . . . . .	356,350	6,124	362,474
Instructional staff . . . . .	302,129	2,443	304,572
Board of education . . . . .	23,094	-	23,094
Administration . . . . .	824,295	-	824,295
Fiscal . . . . .	298,094	2,355	300,449
Operations and maintenance . . . . .	673,884	50,973	724,857
Pupil transportation . . . . .	613,530	-	613,530
Central . . . . .	14,368	-	14,368
Operation of non-instructional services:			
Other operation of non-instructional . . . . .	23,488	-	23,488
Food service operations . . . . .	-	380,080	380,080
Extracurricular activities . . . . .	240,483	114,837	355,320
Debt service:			
Principal retirement . . . . .	277,453	165,000	442,453
Interest and fiscal charges . . . . .	8,573	2,681	11,254
Total expenditures . . . . .	<u>9,671,492</u>	<u>1,069,494</u>	<u>10,740,986</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>452,138</u>	<u>(145,747)</u>	<u>306,391</u>
<b>Other financing sources (uses):</b>			
Transfers in . . . . .	-	110,068	110,068
Transfers (out) . . . . .	(45,250)	(64,818)	(110,068)
Capital lease transaction . . . . .	10,262	-	10,262
Total other financing sources (uses) . . . . .	<u>(34,988)</u>	<u>45,250</u>	<u>10,262</u>
Net change in fund balances . . . . .	417,150	(100,497)	316,653
<b>Fund balances at beginning of year . . . . .</b>	<u>3,223,198</u>	<u>245,330</u>	<u>3,468,528</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 3,640,348</u>	<u>\$ 144,833</u>	<u>\$ 3,785,181</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

<b>Net change in fund balances - total governmental funds</b>	<b>\$</b>	<b>316,653</b>
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 92,674	
Current year depreciation	<u>(253,198)</u>	
Total		(160,524)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(20,860)	
Intergovernmental	<u>33,137</u>	
Total		12,277
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. Principal payments during the year were:		
Bonds	165,000	
Loans	208,947	
Capital leases	<u>68,506</u>	
Total		442,453
Issuance of bonds and capital leases are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net position.		
		(10,262)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
Decrease in accrued interest payable	1,812	
Amortization of bond premiums	3,680	
Amortization of deferred charges	<u>(755)</u>	
Total		4,737
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		800,995
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		3,460,074
Contractually required OPEB contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		26,988
Except for amounts reported as deferred inflows/outflows, changes in the net OPEB liability are reported as pension expense in the statement of activities.		
		370,526
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>(77,553)</u>
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b><u>5,186,364</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
<b>Revenues:</b>				
From local sources:				
Property taxes . . . . .	\$ 1,773,569	\$ 1,809,415	\$ 1,790,434	\$ (18,981)
Income taxes. . . . .	1,015,291	1,096,736	1,092,294	(4,442)
Tuition. . . . .	403,721	682,556	644,603	(37,953)
Transportation fees. . . . .	456	924	-	(924)
Earnings on investments . . . . .	21,394	53,339	54,171	832
Classroom materials and fees . . . . .	12,575	18,874	17,807	(1,067)
Contributions and donations . . . . .	1,916	4,381	200	(4,181)
Other local revenues . . . . .	34,063	61,104	58,584	(2,520)
Intergovernmental - state . . . . .	6,340,925	6,464,092	6,345,796	(118,296)
<b>Total revenues . . . . .</b>	<u>9,603,910</u>	<u>10,191,421</u>	<u>10,003,889</u>	<u>(187,532)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	4,843,429	4,631,293	4,166,752	464,541
Special. . . . .	548,207	842,691	807,518	35,173
Vocational. . . . .	143,279	145,458	130,757	14,701
Other. . . . .	2,342,494	1,701,189	875,128	826,061
Support services:				
Pupil. . . . .	344,606	394,286	349,973	44,313
Instructional staff . . . . .	422,294	318,248	301,953	16,295
Board of education . . . . .	62,488	41,422	28,793	12,629
Administration. . . . .	776,334	939,811	866,231	73,580
Fiscal . . . . .	302,621	317,228	294,698	22,530
Operations and maintenance. . . . .	765,197	806,980	686,211	120,769
Pupil transportation . . . . .	649,246	790,509	701,194	89,315
Central. . . . .	10,688	21,288	14,368	6,920
Other operation of non-instructional services . . . . .	15,002	12,405	10,689	1,716
Extracurricular activities. . . . .	248,554	232,912	231,304	1,608
Facilities acquisition and construction . . . . .	31,400	215,480	211,995	3,485
<b>Total expenditures . . . . .</b>	<u>11,505,839</u>	<u>11,411,200</u>	<u>9,677,564</u>	<u>1,733,636</u>
Excess (deficiency) of revenues over (under) expenditures. . . . .	<u>(1,901,929)</u>	<u>(1,219,779)</u>	<u>326,325</u>	<u>1,546,104</u>
<b>Other financing sources (uses):</b>				
Refund of prior year's expenditures . . . . .	1,733	8,510	7,876	(634)
Refund of prior year's receipts. . . . .	(849)	(690)	-	690
Transfers in . . . . .	-	42,000	42,000	-
Transfers (out). . . . .	(13,140)	(90,681)	(87,250)	3,431
Advances in. . . . .	723	1,465	-	(1,465)
<b>Total other financing sources (uses) . . . . .</b>	<u>(11,533)</u>	<u>(39,396)</u>	<u>(37,374)</u>	<u>2,022</u>
Net change in fund balance . . . . .	(1,913,462)	(1,259,175)	288,951	1,548,126
<b>Fund balance at beginning of year . . . . .</b>	3,463,963	3,463,963	3,463,963	-
<b>Prior year encumbrances appropriated . . . . .</b>	21,121	21,121	21,121	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 1,571,622</u>	<u>\$ 2,225,909</u>	<u>\$ 3,774,035</u>	<u>\$ 1,548,126</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2018

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
<b>Assets:</b>		
Equity in pooled cash and investments . . . . .	\$ 20,120	\$ 36,398
<b>Liabilities:</b>		
Accounts payable. . . . .	-	\$ 2,987
Due to students. . . . .	-	33,411
Total liabilities . . . . .	-	\$ 36,398
<b>Net position:</b>		
Held in trust for scholarships . . . . .	20,120	
Total net position. . . . .	\$ 20,120	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

	<b>Private-Purpose Trust</b>
	<b>Scholarship</b>
<b>Additions:</b>	
Interest . . . . .	\$ 328
Gifts and contributions . . . . .	5,000
Total additions . . . . .	5,328
 <b>Deductions:</b>	
Scholarships awarded . . . . .	2,999
Change in net position . . . . .	2,329
<b>Net position at beginning of year . . . . .</b>	<b>17,791</b>
<b>Net position at end of year . . . . .</b>	<b>\$ 20,120</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The South Central Local School District (the “District”) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally-elected Board form of government consisting of five members and is responsible for the provision of public education to residents of the District. The District provides educational services as authorized by State statute and/or Federal guidelines.

The District is located in rural Huron County, and encompasses the communities of Greenwich and North Fairfield. It is staffed by 43 classified employees and 70 certified teaching personnel and 11 administrators who provide services to approximately 755 students and other community members. The District currently operates an elementary/middle school and a high school.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, “The Financial Reporting Entity” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34”. The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization’s Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization’s resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government’s financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).



**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

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

The following organizations are described due to their relationship to the District:

*JOINTLY GOVERNED ORGANIZATION*

Northern Ohio Educational Computer Association (NOECA)

The District is a participant in the Northern Ohio Educational Computer Association (NOECA), which is a computer consortium. NOECA is an association of various public school districts 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 NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. Financial information can be obtained by contacting NOECA's fiscal agent, the North Point Educational Service Center, Matt Bauer, who serves as Controller, at 4918 Milan Road, Sandusky, Ohio 44870.

*INSURANCE PURCHASING POOLS*

Workers' Compensation Group Rating Program

The District participates in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Program (GRP). The GRP is sponsored by OASBO and administered by CompManagement, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The District pays a fee to the GRP to cover the costs of administering the program.

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association (Association) is a public entity risk pool comprised of 13 districts. The Association assembly consists of a superintendent or designated representative from each participating district and the program administrator. The Association is governed by a Board of Directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the Board. Financial information can be obtained by contacting the program administrator at the Huron-Erie School Employees Insurance Association, located at 4918 Milan Road, Sandusky, Ohio 44870.

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

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

The following is the District's major governmental fund:

*General fund* - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

*PROPRIETARY FUNDS*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**C. Basis of Presentation and Measurement Focus**

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the District are included on the statement of net position.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

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

*Fund Financial Statements* - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from income taxes is recognized in the fiscal year in which the underlying exchange transaction occurred (See Note 8).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, income taxes, interest, tuition, grants, student fees and rentals.

*Deferred Outflows of Resources and Deferred Inflows of Resources* - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, see Notes 14 and 15 for deferred outflows of resources related the District's net pension liability and net OPEB liability, respectively.

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

For the District, see Notes 14 and 15 for deferred inflows of resources related to the District's net pension liability and net OPEB liability, respectively. This deferred inflow of resources is only reported on the government-wide statement of net position.

*Expenses/Expenditures* - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

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

**E. Budgets**

The District is required by State statute to adopt an annual appropriated cash basis budget for all funds except agency funds. The specific timetable for fiscal year 2018 is as follows:

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

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

1. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Huron County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final certificate of estimated resources issued for fiscal year 2018.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Although the legal level of budgetary control was established at the fund level of expenditures for the general fund, the District has elected to present its respective budgetary statement comparison at the fund and function level of expenditures.

Advances-in and advances-out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2018. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

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

8. Unencumbered appropriations lapse at fiscal year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the legal level of budgetary control.

**F. Cash and Investments**

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

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

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Board of Education. Interest revenue credited to the general fund during fiscal year 2018 amounted to \$54,982 which includes \$3,296 assigned from other funds.

For presentation on the basic 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 District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year end is provided in Note 4.

**G. Inventory**

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

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

Inventory held for resale consists of donated food and purchased food. On the fund financial statements, reported material and supplies inventory is equally offset by a nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

**H. Capital Assets**

Capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds and the related 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.

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their acquisition value on the date received. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Interest incurred during the construction of capital assets is also capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. The District maintains a capitalization threshold of \$5,000.

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 useful lives of the respective assets, which range between 5 and 50 years.

**I. Compensated Absences**

Compensated absences of the District consist of vacation leave and sick leave liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2018, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees age fifty with at least ten years of service and all employees with at least twenty years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2018 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

**J. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, net pension liability and net OPEB liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

**K. Fund Balance**

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

*Nonspendable* - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

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

*Assigned* - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.



**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

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

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 only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is 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.

**L. Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component “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. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District had no amounts restricted by enabling legislation.

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

**M. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year end, because prepayments are not available to finance future governmental fund expenditures, a nonspendable fund balance is recorded by an amount equal to the carrying value of the asset on the fund financial statements.

**N. Estimates**

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

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

**O. Interfund Activity**

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

**P. Budget Stabilization Arrangement**

The District has established a budget stabilization reserve in accordance with authority established by State law. Additions to the budget stabilization reserve can only be made by formal resolution of the Board of Education. Expenditures out of the budget stabilization reserve can only be made to offset future budget deficits. At June 30, 2018, the balance in the budget stabilization reserve was \$653,744. This amount is included in unassigned fund balance of the general fund and in unrestricted net position on the statement of net position.

**Q. 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.

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2018.

**S. Fair Value**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles/Restatement of Net Position**

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 effected the District's postemployment benefit plan disclosures, as presented in Note 15 to the basic financial statements, and added required supplementary information.

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

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

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

A net position restatement is required in order to implement GASB Statement No 75. The governmental activities at July 1, 2017 have been restated as follows:

	Governmental Activities
Net position as previously reported	\$ (4,476,884)
Deferred outflows - payments subsequent to measurement date	20,088
Net OPEB liability	(2,958,295)
Restated net position at July 1, 2017	\$ (7,415,091)

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**B. Deficit Fund Balances**

Fund balances at June 30, 2018 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Food Service	\$ 35,433
Race to the Top	1,559
IDEA Part B	15,781
Title I	23,294
Miscellaneous Federal Grants	1,435

The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

1. United States Treasury 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, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one-hundred-eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

**A. Deposits with Financial Institutions**

At June 30, 2018, the carrying amount of all District deposits was \$1,093,482 and the bank balance of all District deposits was \$1,249,403. Of the bank balance, all was covered by the FDIC.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

Custodial credit risk is the risk that, in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) 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. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For fiscal year 2018, the District's financial institutions were approved for a reduced collateral rate of 102 percent through the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the FDIC.

**B. Investments**

As of June 30, 2018, the District had the following investment and maturity:

<u>Measurement/ Investment type</u>	<u>Measurement Value</u>	<u>Investment Maturity 6 months or less</u>
<i>Amortized cost:</i>		
STAR Ohio	<u>\$ 3,015,395</u>	<u>\$ 3,015,395</u>

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the District's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by the State statute.

*Concentration of Credit Risk:* The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2018:

<u>Measurement/ Investment type</u>	<u>Measurement Value</u>	<u>% of Total</u>
<i>Amortized cost:</i>		
STAR Ohio	<u>\$ 3,015,395</u>	<u>100.00</u>

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**C. Reconciliation of Cash and Investments to the Statement of Net Position**

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2018:

Cash and investments per note

Carrying amount of deposits	\$ 1,093,482
Investments	<u>3,015,395</u>
Total	<u>\$ 4,108,877</u>

Cash and investments per statement of net position

Governmental activities	\$ 4,052,359
Private-purpose trust fund	20,120
Agency fund	<u>36,398</u>
Total	<u>\$ 4,108,877</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers consisted of the following at June 30, 2018, as reported on the fund statements:

<u>Transfers from</u>	<u>Transfers to</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 45,250
Nonmajor governmental	Nonmajor governmental	<u>64,818</u>
Total		<u>\$ 110,068</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The District transferred \$64,818 from the bond retirement fund (a nonmajor governmental fund) to the permanent improvement fund (a nonmajor governmental fund) as the District made the final debt payment on the outstanding bonds during fiscal year 2018.

All transfers made in fiscal year 2018 were in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

Interfund transfers between governmental funds are eliminated on the government-wide statement of activities.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 6 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2018 represent the collection of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed values as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2018 represent the collection of calendar year 2017 taxes. Public utility real and personal property taxes received in calendar year 2018 became a lien on 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 is currently assessed at varying percentages of true value.

The District receives property taxes from Huron and Richland Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2018, are available to finance fiscal year 2018 operations. The amount available as an advance at June 30, 2018 was \$315,226 in the general fund, and \$5,244 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2017 was \$313,933 in the general fund, \$7,766 in the debt service fund (a nonmajor governmental fund) and \$4,899 in the classroom facilities maintenance fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

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

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



**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 6 - PROPERTY TAXES - (Continued)**

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

	2017 Second Half Collections		2018 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 94,957,240	96.67	\$ 94,960,670	96.47
Public utility personal	<u>3,270,120</u>	<u>3.33</u>	<u>3,477,510</u>	<u>3.53</u>
Total	<u>\$ 98,227,360</u>	<u>100.00</u>	<u>\$ 98,438,180</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$35.50		\$35.50	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2018 consist of property taxes, income taxes, accounts, accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net position follows:

**Governmental activities:**

Property taxes	\$ 1,947,487
Income taxes	459,339
Accounts	563
Accrued interest	1,643
Intergovernmental	<u>132,937</u>
Total	<u>\$ 2,541,969</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year.

**NOTE 8 - INCOME TAXES**

The District levies a voted income tax of 1.25 percent on the income of residents and on estates for general operations of the District. The income tax became effective on January 1, 1991 and is a continuing tax. Employers of residents are required to withhold income tax on employee compensation and then remit that income tax to the State, and taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund and amounted to \$1,116,593 for fiscal year 2018.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 9 - CAPITAL ASSETS**

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

	Balance <u>June 30, 2017</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2018</u>
<b>Governmental activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 37,245	\$ -	\$ -	\$ 37,245
Total capital assets, not being depreciated	<u>37,245</u>	<u>-</u>	<u>-</u>	<u>37,245</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	961,128	-	-	961,128
Buildings and improvements	8,067,592	37,640	-	8,105,232
Furniture and equipment	541,971	44,740	-	586,711
Vehicles	<u>1,421,694</u>	<u>10,294</u>	<u>-</u>	<u>1,431,988</u>
Total depreciable capital assets	<u>10,992,385</u>	<u>92,674</u>	<u>-</u>	<u>11,085,059</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(562,594)	(33,627)	-	(596,221)
Buildings and improvements	(3,777,145)	(147,916)	-	(3,925,061)
Furniture and equipment	(480,226)	(25,553)	-	(505,779)
Vehicles	<u>(1,170,316)</u>	<u>(46,102)</u>	<u>-</u>	<u>(1,216,418)</u>
Total accumulated depreciation	<u>(5,990,281)</u>	<u>(253,198)</u>	<u>-</u>	<u>(6,243,479)</u>
Governmental activities capital assets, net	<u>\$ 5,039,349</u>	<u>\$ (160,524)</u>	<u>\$ -</u>	<u>\$ 4,878,825</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 32,685
Vocational	664

Support services:

Administration	767
Operations and maintenance	157,427
Pupil transportation	49,558
Extracurricular activities	1,643
Food service operations	<u>10,454</u>
Total depreciation expense	<u>\$ 253,198</u>

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE**

During 2018 and in prior years, the District entered into capital leases for buses and copier equipment. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds and as a reduction to the liability for the principal portion on the government-wide financial statements. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of vehicles and equipment have been capitalized in the amount of \$458,944. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded on the statement of net position. Principal and interest payments in the 2018 fiscal year totaled \$68,506 and \$5,525, respectively, paid by the general fund. Accumulated depreciation on the capital assets acquired under the leases at June 30, 2018 was \$243,787, leaving a book value of \$215,157.

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

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Amount</u>
2019	\$ 37,409
2020	37,410
2021	37,409
2022	2,260
2023	<u>940</u>
Total minimum lease payments	115,428
Less: Amount representing interest	<u>(7,767)</u>
Total	<u>\$ 107,661</u>

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**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 11 - LONG-TERM OBLIGATIONS**

- A. During the fiscal year 2018, the following activity occurred in governmental activities long-term obligations. The long-term obligations at June 30, 2017 have been restated as described in Note 3.A.

	Restated Balance <u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2018</u>	Amounts Due in <u>One Year</u>
<b>Governmental activities:</b>					
Classroom facilities improvement refunding bonds	\$ 165,000	\$ -	\$ (165,000)	\$ -	\$ -
HB 264 loan - Energy conservation project	208,947	-	(208,947)	-	-
Capital leases payable	165,905	10,262	(68,506)	107,661	33,657
Net pension liability	14,797,298	-	(3,514,853)	11,282,445	-
Net OPEB liability	2,958,295	-	(470,838)	2,487,457	-
Compensated absences	<u>633,128</u>	<u>99,133</u>	<u>(31,153)</u>	<u>701,108</u>	<u>20,052</u>
Total governmental activities					
Long-term obligations	<u>\$ 18,928,573</u>	<u>\$ 109,395</u>	<u>\$ (4,459,297)</u>	<u>\$ 14,578,671</u>	<u>\$ 53,709</u>

Compensated absences: Compensated absences will be paid from the fund from which the employees' salaries are paid which, for the District is the general fund, food service fund (a nonmajor governmental fund), the Title VI-B fund (a nonmajor governmental fund) and the Title I fund (a nonmajor governmental fund).

Capital leases payable: The capital leases will be paid from the general fund (See Note 10).

Net pension liability: See Note 14 for details. The District pays obligation related to employee compensation from the fund benefitting from their service.

Net OPEB liability: See Note 15 for details. The District pays obligation related to employee compensation from the fund benefitting from their service.

Series 2009 classroom facilities improvement refunding bonds

On February 4, 2009, the District issued series 2009 general obligation refunding bonds to refund the callable portion of the series 1996 current interest term bonds (principal \$1,015,000). Issuance proceeds totaling \$1,030,947 were deposited with an escrow agent and were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position.

The refunding issue was comprised of both current interest bonds, par value \$935,000 and a capital appreciation bond, par value \$64,999. The interest rate on the current interest bonds ranges from 2.50-3.25%. The capital appreciation bond matured December 1, 2012.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

Interest payments on the current interest bonds are due on June 1 and December 1 each year. The final maturity stated in the issue is December 1, 2017. The payments are made from the debt service fund (a nonmajor governmental fund). The refunding bonds were fully matured during fiscal year 2018.

The reacquisition price exceeded the net carrying amount of the old debt by \$15,947. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued.

Energy Conservation Loan

On July 7, 2013, the District obtained a \$291,062 loan for energy improvements to all existing buildings. The improvements are not capitalized; therefore, the loan is not included in the net investment in capital assets calculation. The loan bears an interest rate of 3.05%. The loan was issued for a 15 year period, with final maturity on June 7, 2028. The loan is being retired from the general fund. During fiscal year 2018 the loan was fully retired.

**B. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2018, are a voted debt margin of \$8,859,436 and an unvoted debt margin of \$98,438.

**NOTE 12 - COMPENSATED ABSENCES**

The criteria for determining vested vacation and sick leave components are derived from Board policy, negotiated agreements and State laws. Classified employees earn five to twenty-five days of vacation per year, depending upon the length of service. School support personnel accumulate vacation based upon the length of service as follows:

<u>Length of Service</u>	<u>Vacation Leave</u>
After 12 Months	5 Days
13 to 84 Months	10 Days
7-15 Years	15 Days
15-20 Years	20 Days
20-25 Years	25 Days

Vacation Pay: A support staff employee may accrue vacation leave over a period of two years. The employee may be paid for the unused portion of the vacation annually. Upon separation from employment the employee may be compensated for unused vacation accrued during the two years prior to their separation.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 12 - COMPENSATED ABSENCES (Continued)**

Sick Leave: Each employee receives 15 sick leave days per year and each employee can earn a maximum of 240 days. An employee may be compensated for unused sick leave based upon a set percentage which gives consideration for length of service.

**NOTE 13 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and natural disasters.

The District maintains comprehensive insurance coverage with Ohio School Plan as authorized by Ohio Revised Code 2744.081 for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 100% coinsured.

Fleet and property/casualty insurance are purchased through Ohio School Plan. Settled claims resulting from these risks have not exceeded coverage in any of the prior three fiscal years. Also, coverages have not been materially reduced from prior fiscal years.

**B. Health Benefits**

The District joined together with other area school districts to form the Huron-Erie School Employees Insurance Association, a public entity risk management and employee health benefits program for 13 member school districts. The District pays a monthly premium to the pool for health, dental and prescription coverage. The agreement for formation of the pool provides that it will be self-sustaining through member premiums, and the pool will purchase stop-loss insurance policies through commercial companies to cover claims in excess of \$400,000 for any employee.

In the event of withdrawal, the District shall assume and be responsible for payment of all claims of its eligible employees, families and dependents from the effective date of withdrawal, regardless of when such claims were incurred, processed, or presented to the Association, insurance provider, insurance consultant, or any other appropriate or authorized person or representative; provided further, any such claims, which are paid after the effective date of withdrawal by the Association insurance provider or insurance consultant, or charged to such parties, shall be reimbursed in full by any withdrawing member upon demand of the Association.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 13 - RISK MANAGEMENT (Continued)**

**C. Workers Compensation**

The District participates in the OASBO/CompManagement, Inc. Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is tiered into groups based upon past workers' compensation experience. Within each tiered group, a common premium rate is applied to all school districts within that group. 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 performance is compared to the overall savings percentage of their tiered 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.

**NOTE 14 - DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

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

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

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

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

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

Age and service requirements for retirement are as follows:

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

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

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

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

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

The District's contractually required contribution to SERS was \$162,854 for fiscal year 2018. Of this amount, \$35,499 is reported as pension and postemployment benefits payable.



**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 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% of the 14% member rate goes to the DC Plan and the remaining 2% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

The District's contractually required contribution to STRS was \$638,141 for fiscal year 2018. Of this amount, \$111,808 is reported as pension and postemployment benefits payable.

***Net Pension Liability***

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.03446070%	0.03667161%	
Proportion of the net pension liability current measurement date	<u>0.03643510%</u>	<u>0.03833065%</u>	
Change in proportionate share	<u>0.00197440%</u>	<u>0.00165904%</u>	
Proportionate share of the net pension liability	\$ 2,176,917	\$ 9,105,528	\$ 11,282,445
Pension expense	\$ (28,538)	\$ (3,431,536)	\$ (3,460,074)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred outflows of resources</b>			
Differences between expected and actual experience	\$ 93,689	\$ 351,613	\$ 445,302
Changes of assumptions	112,569	1,991,479	2,104,048
Difference between District contributions and proportionate share of contributions/ change in proportionate share	127,646	474,012	601,658
District contributions subsequent to the measurement date	<u>162,854</u>	<u>638,141</u>	<u>800,995</u>
Total deferred outflows of resources	<u>\$ 496,758</u>	<u>\$ 3,455,245</u>	<u>\$ 3,952,003</u>

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred inflows of resources</b>			
Differences between expected and actual experience	\$ -	\$ 73,387	\$ 73,387
Net difference between projected and actual earnings on pension plan investments	10,334	300,493	310,827
Difference between District contributions and proportionate share of contributions/ change in proportionate share	<u>11,113</u>	<u>82,793</u>	<u>93,906</u>
Total deferred inflows of resources	<u>\$ 21,447</u>	<u>\$ 456,673</u>	<u>\$ 478,120</u>

\$800,995 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2019	\$ 137,121	\$ 494,098	\$ 631,219
2020	165,047	902,871	1,067,918
2021	61,039	707,426	768,465
2022	(50,748)	256,037	205,289
2023	<u>(2)</u>	<u>(1)</u>	<u>(3)</u>
Total	<u>\$ 312,457</u>	<u>\$ 2,360,431</u>	<u>\$ 2,672,888</u>

***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.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	2.50 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

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

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

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

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	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 District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 3,020,995	\$ 2,176,917	\$ 1,469,829

**Actuarial Assumptions - STRS Ohio**

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

**Discount Rate** - The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net pension liability	\$ 13,052,465	\$ 9,105,528	\$ 5,780,826

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 15 - DEFINED BENEFIT OPEB PLANS**

***Net OPEB Liability***

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

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

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

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

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

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

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



**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 15 - DEFINED BENEFIT OPEB PLANS - (Continued)**

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the District's surcharge obligation was \$20,956.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$26,988 for fiscal year 2018. Of this amount, \$22,271 is reported as pension and postemployment benefits payable.

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

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 15 - DEFINED BENEFIT OPEB PLANS - (Continued)**

***Net OPEB Liability***

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.03498099%	0.03667161%	
Proportion of the net OPEB liability current measurement date	<u>0.03696100%</u>	<u>0.03833065%</u>	
Change in proportionate share	<u>0.00198001%</u>	<u>0.00165904%</u>	
Proportionate share of the net OPEB liability	\$ 991,936	\$ 1,495,521	\$ 2,487,457
OPEB expense	\$ 73,151	\$ (443,677)	\$ (370,526)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred outflows of resources</b>			
Differences between expected and actual experience	\$ -	\$ 86,331	\$ 86,331
Difference between District contributions and proportionate share of contributions/ change in proportionate share	38,534	76,051	114,585
District contributions subsequent to the measurement date	<u>26,988</u>	<u>-</u>	<u>26,988</u>
Total deferred outflows of resources	<u>\$ 65,522</u>	<u>\$ 162,382</u>	<u>\$ 227,904</u>
<b>Deferred inflows of resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$ 2,619	\$ 63,922	\$ 66,541
Changes of assumptions	<u>94,130</u>	<u>120,469</u>	<u>214,599</u>
Total deferred inflows of resources	<u>\$ 96,749</u>	<u>\$ 184,391</u>	<u>\$ 281,140</u>

\$26,988 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 15 - DEFINED BENEFIT OPEB PLANS - (Continued)**

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2019	\$ (20,799)	\$ (8,996)	\$ (29,795)
2020	(20,799)	(8,996)	(29,795)
2021	(15,963)	(8,996)	(24,959)
2022	(654)	(8,994)	(9,648)
2023	-	6,985	6,985
Thereafter	-	6,988	6,988
Total	<u>\$ (58,215)</u>	<u>\$ (22,009)</u>	<u>\$ (80,224)</u>

***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.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 15 - DEFINED BENEFIT OPEB PLANS - (Continued)**

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

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.56 percent
Prior measurement date	2.92 percent
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.63 percent
Prior measurement date	2.98 percent
Medical trend assumption:	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

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

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

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

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 15 - DEFINED BENEFIT OPEB PLANS - (Continued)**

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

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

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

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
District's proportionate share of the net OPEB liability	\$ 1,197,889	\$ 991,936	\$ 828,769

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 15 - DEFINED BENEFIT OPEB PLANS - (Continued)**

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
District's proportionate share of the net OPEB liability	\$ 804,882	\$ 991,936	\$ 1,239,506

***Actuarial Assumptions - STRS***

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

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Payroll increases	3 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended discount rate of return	4.13 percent
Health care cost trends	6 to 11 percent initial, 4.5 percent ultimate

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

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

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

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 15 - DEFINED BENEFIT OPEB PLANS - (Continued)**

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

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

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

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

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

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 15 - DEFINED BENEFIT OPEB PLANS - (Continued)**

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

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
District's proportionate share of the net OPEB liability	\$ 2,007,712	\$ 1,495,521	\$ 1,090,722
	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 1,039,024	\$ 1,495,521	\$ 2,096,324

**NOTE 16 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis); and,
- (d) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).
- (e) Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).



**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

**Net Change in Fund Balance**

	<u>General fund</u>
Budget basis	\$ 288,951
Net adjustment for revenue accruals	51,009
Net adjustment for expenditure accruals	62,409
Net adjustment for other sources/uses	2,386
Funds budgeted elsewhere	10,438
Adjustment for encumbrances	1,957
GAAP basis	\$ 417,150

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the special trust fund, special rotary fund and the public school support fund.

**NOTE 17 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

The District is involved in no material litigation as either plaintiff or defendant.

**C. Foundation Funding**

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the School District.

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

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

**NOTE 18 - SET-ASIDES**

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2017	\$ -
Current year set-aside requirement	137,842
Current year offsets	(141,648)
Prior year offset from bond proceeds	<u>-</u>
Total	<u>\$ (3,806)</u>
Balance carried forward to fiscal year 2019	<u>\$ -</u>
Set-aside balance June 30, 2018	<u>\$ -</u>

During fiscal year 1996, the District issued \$1,795,000 in capital related school improvement bonds. These proceeds may be used to reduce capital acquisition below zero for future years. The amount presented for Prior Year Offset from Bond Proceeds is limited to an amount needed to reduce the reserve for capital improvement to \$0. The District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods, which was \$430,659 at June 30, 2018.

**NOTE 19 - OTHER COMMITMENTS**

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 1,483
Other governmental	<u>5,154</u>
Total	<u>\$ 6,637</u>

REQUIRED SUPPLEMENTARY INFORMATION

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.03643510%	0.03446070%	0.03502810%	0.03323200%	0.03323200%
District's proportionate share of the net pension liability	\$ 2,176,917	\$ 2,522,205	\$ 1,998,737	\$ 1,681,853	\$ 1,976,200
District's covered payroll	\$ 1,353,300	\$ 1,133,729	\$ 1,054,530	\$ 965,664	\$ 964,277
District's proportionate share of the net pension liability as a percentage of its covered payroll	160.86%	222.47%	189.54%	174.17%	204.94%
Plan fiduciary net position as a percentage of the total pension liability	69.50%	62.98%	69.16%	71.70%	65.52%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.03833065%	0.03667161%	0.03616597%	0.03691467%	0.03691467%
District's proportionate share of the net pension liability	\$ 9,105,528	\$ 12,275,093	\$ 9,995,216	\$ 8,978,925	\$ 10,695,637
District's covered payroll	\$ 4,233,214	\$ 3,859,671	\$ 3,823,764	\$ 3,771,654	\$ 4,111,208
District's proportionate share of the net pension liability as a percentage of its covered payroll	215.10%	318.03%	261.40%	238.06%	260.16%
Plan fiduciary net position as a percentage of the total pension liability	75.30%	66.80%	72.10%	74.70%	69.30%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 162,854	\$ 189,462	\$ 158,722	\$ 138,987
Contributions in relation to the contractually required contribution	<u>(162,854)</u>	<u>(189,462)</u>	<u>(158,722)</u>	<u>(138,987)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 1,206,326	\$ 1,353,300	\$ 1,133,729	\$ 1,054,530
Contributions as a percentage of covered payroll	13.50%	14.00%	14.00%	13.18%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 133,841	\$ 133,456	\$ 127,762	\$ 120,145	\$ 134,028	\$ 89,668
<u>(133,841)</u>	<u>(133,456)</u>	<u>(127,762)</u>	<u>(120,145)</u>	<u>(134,028)</u>	<u>(89,668)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 965,664	\$ 964,277	\$ 949,903	\$ 955,807	\$ 989,867	\$ 911,260
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 638,141	\$ 592,650	\$ 540,354	\$ 535,327
Contributions in relation to the contractually required contribution	<u>(638,141)</u>	<u>(592,650)</u>	<u>(540,354)</u>	<u>(535,327)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 4,558,150	\$ 4,233,214	\$ 3,859,671	\$ 3,823,764
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION



<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 490,315	\$ 534,457	\$ 517,854	\$ 517,817	\$ 498,662	\$ 479,461
<u>(490,315)</u>	<u>(534,457)</u>	<u>(517,854)</u>	<u>(517,817)</u>	<u>(498,662)</u>	<u>(479,461)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,771,654	\$ 4,111,208	\$ 3,983,492	\$ 3,983,208	\$ 3,835,862	\$ 3,688,162
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
THE NET OPEB LIABILITY  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TWO FISCAL YEARS

	<b>2018</b>	<b>2017</b>
District's proportion of the net OPEB liability	0.03696100%	0.03498099%
District's proportionate share of the net OPEB liability	\$ 991,936	\$ 997,088
District's covered payroll	\$ 1,353,300	\$ 1,133,729
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	73.30%	87.95%
Plan fiduciary net position as a percentage of the total OPEB liability	12.46%	11.49%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
THE NET OPEB LIABILITY  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TWO FISCAL YEARS

	<b>2018</b>	<b>2017</b>
District's proportion of the net OPEB liability	0.03833065%	0.03667161%
District's proportionate share of the net OPEB liability	\$ 1,495,521	\$ 1,961,207
District's covered payroll	\$ 4,233,214	\$ 3,859,671
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	35.33%	50.81%
Plan fiduciary net position as a percentage of the total OPEB liability	47.10%	37.30%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT OPEB CONTRIBUTIONS  
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 26,988	\$ 20,088	\$ 17,953	\$ 25,627
Contributions in relation to the contractually required contribution	<u>(26,988)</u>	<u>(20,088)</u>	<u>(17,953)</u>	<u>(25,627)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 1,206,326	\$ 1,353,300	\$ 1,133,729	\$ 1,054,530
Contributions as a percentage of covered payroll	2.24%	1.48%	1.58%	2.43%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 18,486	\$ 14,469	\$ 24,774	\$ 32,872	\$ 18,355	\$ 56,210
<u>(18,486)</u>	<u>(14,469)</u>	<u>(24,774)</u>	<u>(32,872)</u>	<u>(18,355)</u>	<u>(56,210)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 965,664	\$ 964,277	\$ 949,903	\$ 955,807	\$ 989,867	\$ 911,260
1.91%	1.50%	2.61%	3.44%	1.85%	6.17%

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT OPEB CONTRIBUTIONS  
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 4,558,150	\$ 4,233,214	\$ 3,859,671	\$ 3,823,764
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 38,997	\$ 4,112	\$ 39,835	\$ 39,832	\$ 38,359	\$ 36,882
<u>(38,997)</u>	<u>(4,112)</u>	<u>(39,835)</u>	<u>(39,832)</u>	<u>(38,359)</u>	<u>(36,882)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,771,654	\$ 4,111,208	\$ 3,983,492	\$ 3,983,208	\$ 3,835,862	\$ 3,688,162
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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PENSION

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*SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS change from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the change in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2018.

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, STRS decreased the Cost of Living Adjustment (COLA) to zero.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumption affected the total pension liability since the prior measurement date: (a) the long term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation (e) the healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016 and (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience.

(Continued)



**SOUTH CENTRAL LOCAL SCHOOL DISTRICT  
HURON COUNTY, OHIO**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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*SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2017-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement, and disability were updated to reflect recent experience, (e) mortality among active members was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to the following: RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% 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 2020.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) 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 and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

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**Julian & Grube, Inc.**  
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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***

South Central Local School District  
Huron County  
3305 Greenwich Angling Road  
Greenwich, Ohio 44837

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the South Central Local School District, Huron County, Ohio as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the South Central Local School District's basic financial statements and have issued our report thereon dated November 28, 2018, wherein we noted as discussed in Note 3, the South Central Local School District adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the South Central Local School 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 South Central Local School 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 South Central Local School 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. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***Compliance and Other Matters***

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

***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 South Central Local School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the South Central Local School District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
November 28, 2018

# OHIO AUDITOR OF STATE KEITH FABER



**SOUTH CENTRAL LOCAL SCHOOL DISTRICT**

**HURON 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  
JANUARY 29, 2019**