



OHIO AUDITOR OF STATE
KEITH FABER



**ASHTABULA AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY
JUNE 30, 2019**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Management's Discussion and Analysis	5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	17
Statement of Activities.....	19
Fund Financial Statements:	
Balance Sheet	
Governmental Funds	20
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	22
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds.....	24
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	26
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual General Fund.....	28
Statement of Fund Net Position	
Proprietary Funds	30
Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Funds	31
Statement of Cash Flows	
Proprietary Funds	32
Statement of Fiduciary Net Position	
Fiduciary Funds	33
Statement of Changes in Fiduciary Net Position Fiduciary Funds	34
Notes to the Basic Financial Statements	35

**ASHTABULA AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY
JUNE 30, 2019**

**TABLE OF CONTENTS
(CONTINUED)**

TITLE	PAGE
Prepared by Management:	
Required Supplementary Information:	
Schedule of the District's Proportionate Share of the Net Pension Liability – SERS – Last Six Fiscal Years	84
Schedule of the District's Proportionate Share of the Net Pension Liability – STRS – Last Six Fiscal Years	85
Schedule of the District Pension Contributions – SERS – Last Ten Fiscal Years	86
Schedule of the District Pension Contributions – STRS – Last Ten Fiscal Years	87
Schedule of the District's Proportionate Share of the Net OPEB Liability – SERS – Last Three Fiscal Years	88
Schedule of the District's Proportionate Share of the Net OPEB Liability – STRS – Last Three Fiscal Years.....	89
Schedule of the District OPEB Contributions – SERS – Last Ten Fiscal Years	90
Schedule of the District OPEB Contributions – STRS – Last Ten Fiscal Years	91
Notes to Required Supplementary Information	92
Schedule of Expenditures of Federal Awards	95
Notes to the Schedule of Expenditures of Federal Awards.....	96
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	97
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	99
Schedule of Findings.....	101
Prepared by Management:	
Summary Schedule of Prior Audit Findings.....	103

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INDEPENDENT AUDITOR'S REPORT

Ashtabula Area City School District
Ashtabula County
6610 Sanborn Road
Ashtabula, Ohio 44004

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ashtabula Area City School District, Ashtabula County, Ohio (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no 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, each major fund, and the aggregate remaining fund information of the Ashtabula Area City School District, Ashtabula County, Ohio, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2020, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber
Auditor of State
Columbus, Ohio

March 10, 2020

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Ashtabula Area City School District

Management's Discussion and Analysis (Unaudited)

For the Fiscal Year Ended June 30, 2019

The discussion and analysis of the Ashtabula Area City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2019 are as follows:

- Total net position of governmental activities increased \$1,781,479 from 2018.
- Total general revenues equaled \$45,198,933 and accounted for the majority of all revenues. Program specific revenues in the form of charges for services, and operating grants and contributions accounted for \$6,258,638 of total revenues.
- The District had \$49,675,942 in expenses related to governmental activities; \$6,258,638 of these expenses was offset by program specific charges for services, operating grants and contributions.
- Total assets of governmental activities decreased by \$1,973,425 due primarily to a decrease in capital assets and cash. Capital assets decreased as annual depreciation outpaced additions while cash decreased due to capital projects, such as upgrades to the football, baseball and softball fields. These decreases were offset by an increase in net OPEB asset resulting from GASB 75.
- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$23,327,041, a decrease of \$1,877,970 in comparison with the prior year.
- Outstanding debt decreased from a balance of \$26,038,757 in 2018 to \$24,505,677 in 2019.

Using this Annual Financial Report

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.

Ashtabula Area City School District

Management's Discussion and Analysis (Unaudited) (continued)

For the Fiscal Year Ended June 30, 2019

For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the District, the General Fund is by far the most significant fund.

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 2019?" The *Statement of Net Position* and *the Statement of Activities* answers this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net position and changes in the 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 that result in restricting revenue growth, facility conditions, required educational program and other factors.

In the *Statement of Net Position* and the *Statement of Activities*, all of the District's activities are classified as governmental. All of the District's programs and services are reported here including instruction, support services, operation of non-instructional services, and extracurricular activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The presentation of the District's major funds begins on page 20. Fund financial statements 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 funds are the General Fund, Debt Service Fund and the Permanent Improvement Fund.

Ashtabula Area City School District

Management's Discussion and Analysis (Unaudited) (continued)

For the Fiscal Year Ended June 30, 2019

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 known as modified accrual accounting, which measures cash and all other financial assets that 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 to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the *Statement of Net Position and the Statement of Activities*) and governmental funds is reconciled in the financial statements.

Fiduciary Funds

The District acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in an agency fund. The District's trust funds are Private Purpose Trusts which account for programs that provide assistance to needy students. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position – Fiduciary Funds on page 33. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The District as a Whole

The *Statement of Net Position* provides the perspective of the District as a whole. The table on the following page provides a summary of the District's net position at June 30, 2019 compared to June 30, 2018.

Ashtabula Area City School District

Management's Discussion and Analysis (Unaudited) (continued)

For the Fiscal Year Ended June 30, 2019

**Table 1
Net Position**

	Governmental Activities 2019	Governmental Activities 2018
Assets:		
Current assets	\$ 43,010,453	\$ 45,491,343
Net OPEB asset	2,180,593	-
Capital assets, net	<u>99,643,246</u>	<u>101,316,374</u>
Total assets	<u>144,834,292</u>	<u>146,807,717</u>
Deferred outflows of resources:		
Deferred charge on refunding	723,048	785,921
Pension	10,095,329	12,679,494
OPEB	<u>487,390</u>	<u>413,468</u>
Total deferred outflows of resources	<u>11,305,767</u>	<u>13,878,883</u>
Liabilities:		
Current liabilities	5,369,479	5,626,664
Long term liabilities:		
Due within one year	2,033,130	645,430
Due in more than one year:		
Net pension liability	38,112,574	41,019,080
Net OPEB liability	4,082,698	9,238,451
Other liabilities	<u>26,598,321</u>	<u>29,469,550</u>
Total liabilities	<u>76,196,202</u>	<u>85,999,175</u>
Deferred inflows of resources:		
Property taxes	9,853,835	9,806,909
Pension	2,748,328	1,989,920
OPEB	<u>3,849,042</u>	<u>1,179,423</u>
Total deferred inflows of resources	<u>16,451,205</u>	<u>12,976,252</u>
Net position:		
Net investment in capital assets	75,320,227	76,688,755
Restricted	12,245,336	14,153,313
Unrestricted	<u>(24,072,911)</u>	<u>(29,130,895)</u>
Total net position	<u>\$ 63,492,652</u>	<u>\$ 61,711,173</u>

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2019 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 revised 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 the net OPEB asset and deferred outflows related to pension and OPEB.

Ashtabula Area City School District

Management's Discussion and Analysis (Unaudited) (continued)

For the Fiscal Year Ended June 30, 2019

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*.

Ashtabula Area City School District

Management's Discussion and Analysis (Unaudited) (continued)

For the Fiscal Year Ended June 30, 2019

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 noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the District, total assets and deferred outflows of resources exceed total liabilities and deferred inflows of resources by \$63,492,652 at the close of the most recent fiscal year. The main source for the decrease in assets was due to a decrease in capital assets and cash. Capital assets decreased as annual depreciation outpaced additions while cash decreased due to capital projects. These decreases were offset by an increase in net OPEB asset due to GASB 75. The main source for the decrease in deferred outflows is related to the decrease in pension deferred outflows of resources due to GASB 68.

The most significant change in liabilities and deferred inflows of resources was a decrease in long-term liabilities, which was primarily due to the change in the net pension liability and the net OPEB liability. This decrease was offset by an increase in deferred inflows of resources which related mostly to OPEB deferred inflows of resources due to GASB 75.

During fiscal year 2019, the District's net position increased \$1,781,479. A portion of the District's net position reflects investments in capital assets (e.g., land, construction in progress, buildings, improvements, machinery and equipment and vehicles), less any related debt to acquire or construct those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Ashtabula Area City School District

Management's Discussion and Analysis (Unaudited) (continued)

For the Fiscal Year Ended June 30, 2019

Table 2
Changes in Net Position

	Governmental Activities 2019	Governmental Activities 2018
Revenues:		
Program revenues:		
Charges for services	\$ 879,126	\$ 838,237
Operating grants and contributions	<u>5,379,512</u>	<u>7,146,768</u>
Total program revenues	<u>6,258,638</u>	<u>7,985,005</u>
General revenues:		
Property taxes	13,320,207	13,299,459
Grants and entitlements	30,884,072	30,207,327
Investment earnings	507,309	241,793
Miscellaneous revenue	<u>487,345</u>	<u>229,948</u>
Total general revenues	<u>45,198,933</u>	<u>43,978,527</u>
Total revenues	<u>51,457,571</u>	<u>51,963,532</u>
Program expenses:		
Instruction:		
Regular education	17,747,079	10,206,719
Special education	9,874,081	6,853,119
Vocational education	90,212	14,992
Adult/continuing education	23,143	30,979
Other	735,542	557,978
Support services	15,959,414	12,787,018
Food service	2,589,802	2,123,081
Community services	594,894	237,402
Extracurricular activities	586,381	410,211
Facilities acquisition and construction	457,301	730,534
Interest and fiscal charges	<u>1,018,093</u>	<u>1,135,366</u>
Total program expenses	<u>49,675,942</u>	<u>35,087,399</u>
Change in net position before transfers	1,781,629	16,876,133
Transfers – out	<u>(150)</u>	<u>-</u>
Change in net position	1,781,479	16,876,133
Net position at beginning of year	<u>61,711,173</u>	<u>44,835,040</u>
Net position at end of year	\$ <u>63,492,652</u>	\$ <u>61,711,173</u>

Ashtabula Area City School District

Management's Discussion and Analysis (Unaudited) (continued)

For the Fiscal Year Ended June 30, 2019

Effects of GASB 68

Under GASB 68, pension expense represents additional amounts earned based on a proportionate share of the pension fund liability adjusted by a corresponding proportionate share of deferred outflows and inflows. Under GASB 68, the pension expense for 2019 is \$3,454,498, while in 2018 pension expense was \$12,796,784. The District was required to contribute \$3,018,431 and \$2,827,461 during 2019 and 2018, respectively.

Effects of GASB 75

Under GASB 75, OPEB expense represents additional amounts earned based on a proportionate share of the OPEB fund liability adjusted by a corresponding proportionate share of deferred outflows and inflows. Under GASB 75, the OPEB expense for 2019 is \$(4,620,130), while in 2018 OPEB expense was \$(1,433,772). The District was required to contribute \$120,519 and \$105,977 during 2019 and 2018, respectively.

Governmental Activities

Net position of the District's governmental activities increased by \$1,781,479. Program revenues of \$6,258,638 and general revenues of \$45,198,783 were adequate to provide for total governmental expenses of \$49,675,942.

The primary sources of revenue for governmental activities are derived from property taxes, operating grants, and grants and entitlements. These revenue sources represent over 96% of total governmental revenue.

Instruction and support services make up over 89% of governmental program expenses. The largest program expense relates to regular instruction which increased \$7,540,360 in the current year primarily due to GASB 68 and 75.

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 for 2019 and 2018. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements.

Ashtabula Area City School District

Management’s Discussion and Analysis (Unaudited) (continued)

For the Fiscal Year Ended June 30, 2019

Table 3
Governmental Activities

	<u>Total Cost of</u> <u>Services 2019</u>	<u>Net Cost of</u> <u>Services 2019</u>	<u>Total Cost of</u> <u>Services 2018</u>	<u>Net Cost of</u> <u>Services 2018</u>
Program expenses:				
Instruction	\$ 28,470,057	\$ 24,700,434	\$ 17,663,787	\$ 12,212,683
Support services:				
Pupil	2,511,486	2,511,486	1,430,246	1,430,246
Instructional staff	914,941	914,941	588,433	588,433
Board of education	327,813	327,813	434,121	434,121
Administration	2,393,410	2,393,410	1,429,162	1,429,162
Fiscal	924,775	924,775	1,036,168	1,036,168
Business	738,103	738,103	654,513	654,513
Operation and maintenance of plant	5,019,587	5,019,587	4,481,112	4,481,112
Pupil transportation	2,883,095	2,880,084	2,530,597	2,529,392
Central	246,204	233,604	202,666	190,066
Food service	2,589,802	559,572	2,123,081	18,352
Community services	594,894	594,894	237,402	237,402
Extracurricular activities	586,381	143,207	410,211	(5,156)
Facilities acquisition and construction	457,301	457,301	730,534	730,534
Interest and fiscal charges	<u>1,018,093</u>	<u>1,018,093</u>	<u>1,135,366</u>	<u>1,135,366</u>
Total expenses	\$ <u>49,675,942</u>	\$ <u>43,417,304</u>	\$ <u>35,087,399</u>	\$ <u>27,102,394</u>

As noted above, the District’s primary sources of revenue for governmental activities are derived from property taxes, operating grants, and grants and entitlements. The dependence upon these types of revenues is apparent, over 95% of 2019 governmental activities are supported by these revenues. Therefore, the District’s taxpayers, as a whole, provide substantial financial support through real estate property taxes for the District and its students.

The District’s Funds

As previously stated, governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$52,317,477, expenditures of \$54,195,297, and net other financing sources and uses of \$(150). The net change in fund balance for the year was most significant in the Non-major Governmental Funds, where the fund balance decreased by \$1,150,367 due to decreases in the Food Service Fund and capital improvements funds.

General Fund Budget Information

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. During the course of fiscal year 2019, the District amended its General Fund budget periodically as defined by individual team needs.

Ashtabula Area City School District

Management's Discussion and Analysis (Unaudited) (continued)

For the Fiscal Year Ended June 30, 2019

For the General Fund, final budget basis revenue, including other financing sources was \$1,724,391 more than the original budget estimates of \$41,602,568. Actual revenues, including other financing sources was \$1,029,530 less than final budget estimates. Original and final appropriations, including other financing uses remained consistent. The final appropriations, including other financing uses of \$43,645,335 were sufficient to meet the expenditures and other financing uses for the year, which ended up at \$43,601,533.

Capital Assets

At the end of fiscal year 2019 the District had \$99,643,246 invested in construction in progress, land, land improvements, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2019 balances compared to 2018. The majority of the decrease was the result of increased accumulated depreciation expense due to annual depreciation.

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

	Governmental Activities	
	<u>2019</u>	<u>2018</u>
Land	\$ 1,741,522	\$ 1,741,522
Construction in progress	-	419,490
Land improvements	2,531,803	1,870,510
Buildings	93,263,853	95,160,473
Furniture and equipment	1,141,531	960,689
Vehicles	<u>964,537</u>	<u>1,163,690</u>
Totals	<u>\$ 99,643,246</u>	<u>\$ 101,316,374</u>

Additional information concerning the District's capital assets can be found in Note 10 to the financial statements.

Debt

At June 30, 2019, the District had bonds outstanding. Table 5 summarizes bonds outstanding.

Table 5
Outstanding Debt at Year-End

	Governmental Activities	
	<u>2019</u>	<u>2018</u>
General obligation bonds:		
Serial bonds	\$ 23,830,000	\$ 23,830,000
Capital appreciation bonds	85,772	354,958
Accretion on capital appreciation bonds	<u>589,905</u>	<u>1,853,793</u>
Total	<u>\$ 24,505,677</u>	<u>\$ 26,038,751</u>

Additional information concerning the District's bonds can be found in Note 11 to the financial statements.

Ashtabula Area City School District

Management's Discussion and Analysis (Unaudited) (continued)

For the Fiscal Year Ended June 30, 2019

Current Financial Related Activities

The financial future of the District is not without its challenges. These challenges stem from issues that are local and at the state level. At the local level, the taxpayers must approve additional levies to pay for unfunded mandates as well as continue the programs they have come to expect as normal operations. Due to the unsettled issues in the school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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 any questions about this report or need additional financial information, contact the Treasurer, Ashtabula Area City School District, 6610 Sanborn Road, Ashtabula, Ohio 44004, or telephone (440) 992-1210.

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Ashtabula Area City School District

Statement of Net Position

June 30, 2019

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 27,779,113
Accounts receivable	3,380
Prepaid items	74,805
Accrued interest receivable	18,608
Intergovernmental receivable	974,008
Materials and supplies inventory	133,519
Property taxes receivable	14,027,020
Net OPEB asset	2,180,593
Non-depreciable capital assets	1,741,522
Depreciable capital assets, net	<u>97,901,724</u>
Total assets	<u>144,834,292</u>
Deferred outflows of resources:	
Deferred charges on refunding	723,048
Pension	10,095,329
OPEB	<u>487,390</u>
Total deferred outflows of resources	<u>11,305,767</u>
Liabilities:	
Accounts payable	569,938
Accrued wages and benefits	3,048,307
Accrued interest payable	72,632
Intergovernmental payable	621,557
Matured compensated absences	68,956
Claims payable	988,089
Long-term liabilities:	
Due within one year	2,033,130
Due in more than one year:	
Net pension liability	38,112,574
Net OPEB liability	4,082,698
Other amounts due in more than one year	<u>26,598,321</u>
Total liabilities	<u>76,196,202</u>
Deferred inflows of resources:	
Property taxes	9,853,835
Pension	2,748,328
OPEB	<u>3,849,042</u>
Total deferred inflows of resources	<u>16,451,205</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

Ashtabula Area City School District

Statement of Net Position (continued)

June 30, 2019

	<u>Governmental Activities</u>
Net position:	
Net investment in capital assets	75,320,227
Restricted for:	
Capital projects	2,787,306
Debt service	8,111,137
Other purposes	1,346,893
Unrestricted	<u>(24,072,911)</u>
Total net position	\$ <u><u>63,492,652</u></u>

The accompanying notes are an integral part of these financial statements.

Ashtabula Area City School District

Statement of Activities

For the Fiscal Year Ended June 30, 2019

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Regular education	\$ 17,747,079	\$ 615,251	\$ 525,164	\$ (16,606,664)
Special education	9,874,081	-	2,629,208	(7,244,873)
Vocational education	90,212	-	-	(90,212)
Adult/continuing education	23,143	-	-	(23,143)
Other instruction	735,542	-	-	(735,542)
Support services:				
Pupil	2,511,486	-	-	(2,511,486)
Instructional staff	914,941	-	-	(914,941)
Board of education	327,813	-	-	(327,813)
Administration	2,393,410	-	-	(2,393,410)
Fiscal	924,775	-	-	(924,775)
Business	738,103	-	-	(738,103)
Operation and maintenance of plant	5,019,587	-	-	(5,019,587)
Pupil transportation	2,883,095	3,011	-	(2,880,084)
Central	246,204	-	12,600	(233,604)
Operation of non-instructional services:				
Food service	2,589,802	184,408	1,845,822	(559,572)
Community services	594,894	-	-	(594,894)
Extracurricular activities	586,381	76,456	366,718	(143,207)
Facilities acquisitions and construction services	457,301	-	-	(457,301)
Interest and fiscal charges	1,018,093	-	-	(1,018,093)
Total governmental activities	<u>\$ 49,675,942</u>	<u>\$ 879,126</u>	<u>\$ 5,379,512</u>	<u>(43,417,304)</u>
General revenues:				
Property taxes levies for:				
General purpose				9,951,050
Debt service				1,896,087
Capital outlay				1,267,922
Capital maintenance				205,148
Grant and entitlements not restricted to specific programs				30,884,072
Investment income				507,309
Miscellaneous revenue				487,345
Total general revenues				<u>45,198,933</u>
Change in net position before transfers				1,781,629
Transfers - out				<u>(150)</u>
Change in net position				1,781,479
Net position at beginning of year				<u>61,711,173</u>
Net position at end of year				<u>\$ 63,492,652</u>

The accompanying notes are an integral part of these financial statements.

Ashtabula Area City School District

Balance Sheet Governmental Funds

June 30, 2019

	<u>General</u>	<u>Debt Service</u>	<u>Permanent Improvement</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 12,067,132	\$ 8,166,251	\$ 2,255,823
Taxes receivable	10,469,635	2,003,382	1,358,751
Accounts receivable	3,380	-	-
Accrued interest receivable	18,608	-	-
Intergovernmental receivable	167,191	-	-
Interfund receivable	369,052	-	-
Materials and supplies inventory	117,841	-	-
Total assets	<u>\$ 23,212,839</u>	<u>\$ 10,169,633</u>	<u>\$ 3,614,574</u>
Liabilities, deferred inflows of resources and fund balances:			
Liabilities:			
Accounts payable	\$ 291,277	\$ -	\$ 168,863
Accrued wages and benefits	2,699,395	-	-
Intergovernmental payable	569,653	-	-
Matured compensated absences	68,956	-	-
Interfund payable	-	-	-
Total liabilities	<u>3,629,281</u>	<u>-</u>	<u>168,863</u>
Deferred inflows of resources:			
Property taxes	7,371,426	1,395,959	950,275
Unavailable revenue	<u>1,039,135</u>	<u>209,060</u>	<u>140,235</u>
Total deferred inflows of resources	<u>8,410,561</u>	<u>1,605,019</u>	<u>1,090,510</u>
Fund balances:			
Nonspendable	117,841	-	-
Restricted	11,000	8,564,614	2,355,201
Committed	129,281	-	-
Assigned	3,230,597	-	-
Unassigned (deficit)	<u>7,684,278</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>11,172,997</u>	<u>8,564,614</u>	<u>2,355,201</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 23,212,839</u>	<u>\$ 10,169,633</u>	<u>\$ 3,614,574</u>

The accompanying notes are an integral part of the financial statements.

Non-major Governmental Funds	Total Governmental Funds
\$ 1,507,408	\$ 23,996,614
195,252	14,027,020
-	3,380
-	18,608
806,817	974,008
-	369,052
<u>15,678</u>	<u>133,519</u>
\$ <u><u>2,525,155</u></u>	\$ <u><u>39,522,201</u></u>
\$ 69,367	\$ 529,507
347,831	3,047,226
51,904	621,557
-	68,956
<u>369,052</u>	<u>369,052</u>
<u>838,154</u>	<u>4,636,298</u>
136,175	9,853,835
<u>316,597</u>	<u>1,705,027</u>
<u>452,772</u>	<u>11,558,862</u>
15,678	133,519
1,083,462	12,014,277
291,870	421,151
-	3,230,597
<u>(156,781)</u>	<u>7,527,497</u>
<u>1,234,229</u>	<u>23,327,041</u>
\$ <u><u>2,525,155</u></u>	\$ <u><u>39,522,201</u></u>

The accompanying notes are an integral part of the financial statements.

Ashtabula Area City School District

Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities

June 30, 2019

Total governmental fund balances	\$	23,327,041
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		99,643,246
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Delinquent property taxes	\$	1,396,302
Intergovernmental		296,277
Investment income		12,448
Total		<u>1,705,027</u>
Internal service funds are used by management to charge the cost of health insurance and workers' compensation premiums to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.		2,827,703
Premiums received from the sale of general obligation bonds are considered financial resources and reported as revenue in the funds but deferred in the Statement of Net Position.		(1,130,295)
Long-term liabilities are not due and payable in the current period and are therefore not reported in the funds.		
General obligation serial bonds	(23,830,000)	
Capital appreciation bonds	(85,772)	
Bond accretion	(589,905)	
Compensated absences payable	(2,995,479)	
Accrued interest payable	(72,632)	
Total		<u>(27,573,788)</u>
Deferred charges on refunding related to the issuance of long-term refunding debt that will be amortized over the life of the debt on the Statement of Net Position.		723,048

(Continued)

The accompanying notes are an integral part of the financial statements.

Ashtabula Area City School District

Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities (continued)

June 30, 2019

The net pension liability and net OPEB liability/asset are not due in the current period; therefore, the liability/asset and related deferred inflows/outflows are not reported in governmental funds:

Deferred outflows – pension	10,095,329	
Deferred inflows – pension	(2,748,328)	
Net pension liability	(38,112,574)	
Net OPEB asset	2,180,593	
Deferred outflows – OPEB	487,390	
Deferred inflows – OPEB	(3,849,042)	
Net OPEB liability	<u>(4,082,698)</u>	
Total		<u>(36,029,330)</u>
Net position of governmental activities		\$ <u><u>63,492,652</u></u>

The accompanying notes are an integral part of the financial statements.

Ashtabula Area City School District

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

For the Fiscal Year Ended June 30, 2019

	<u>General</u>	<u>Debt Service</u>	<u>Permanent Improvement</u>
Revenues:			
Taxes	\$ 9,950,367	\$ 1,895,829	\$ 1,288,121
Intergovernmental	30,412,013	271,817	181,337
Tuition and fees	621,094	-	-
Investment earnings	389,809	117,329	-
Extracurricular activities	180	-	-
Classroom materials and fees	-	-	-
Miscellaneous revenue	<u>450,565</u>	<u>-</u>	<u>-</u>
Total revenues	<u>41,824,028</u>	<u>2,284,975</u>	<u>1,469,458</u>
Expenditures:			
Current:			
Instruction:			
Regular education	18,129,299	-	265,671
Special education	8,023,805	-	-
Vocational education	93,249	-	-
Adult/continuing education	-	-	-
Other instruction	554,593	-	-
Support services:			
Pupil	2,716,752	-	-
Instructional staff	673,995	-	-
Board of education	327,913	-	-
Administration	2,648,324	-	3,902
Fiscal	836,210	39,469	35,418
Business	742,041	-	-
Operation and maintenance of plant	4,122,230	-	172,680
Pupil transportation	2,777,058	-	-
Central	240,813	-	-
Operation of non-instruction services:			
Food service	-	-	-
Community services	-	-	-
Extracurricular activities	393,475	-	-
Capital outlay	214	-	869,341
Debt services:			
Principal	-	269,186	-
Interest and fiscal charges	<u>-</u>	<u>2,317,395</u>	<u>-</u>
Total expenditures	<u>42,279,971</u>	<u>2,626,050</u>	<u>1,347,012</u>
Excess of revenues over (under) expenditures	(455,943)	(341,075)	122,446
Other financing sources (uses):			
Transfers - in	1,107	-	-
Transfers - out	<u>(47,000)</u>	<u>-</u>	<u>(7,138)</u>
Total other financing sources (uses)	<u>(45,893)</u>	<u>-</u>	<u>(7,138)</u>
Net change in fund balance	(501,836)	(341,075)	115,308
Fund balance at beginning of year	<u>11,674,833</u>	<u>8,905,689</u>	<u>2,239,893</u>
Fund balance at end of year	<u>\$ 11,172,997</u>	<u>\$ 8,564,614</u>	<u>\$ 2,355,201</u>

The accompanying notes are an integral part of the financial statements.

	Non-major Governmental Funds		Total Governmental Funds
\$	184,828	\$	13,319,145
	6,178,905		37,044,072
	100		618,262
	3,298		510,436
	73,344		76,456
	184,408		184,408
	<u>114,133</u>		<u>564,698</u>
	<u>6,739,016</u>		<u>52,317,477</u>
	378,152		18,773,122
	2,541,941		10,565,746
	-		93,249
	23,143		23,143
	225,018		779,611
	175,973		2,892,725
	271,448		945,443
	-		327,913
	17,443		2,669,669
	3,836		914,933
	-		742,041
	889,364		5,184,274
	334		2,777,392
	399		241,212
	2,585,669		2,585,669
	628,704		628,704
	200,840		594,315
	-		869,555
	-		269,186
	-		<u>2,317,395</u>
	<u>7,942,264</u>		<u>54,195,297</u>
	(1,203,248)		(1,877,820)
	54,138		55,245
	<u>(1,257)</u>		<u>(55,395)</u>
	<u>52,881</u>		<u>(150)</u>
	(1,150,367)		(1,877,970)
	<u>2,384,596</u>		<u>25,205,011</u>
\$	<u><u>1,234,229</u></u>	\$	<u><u>23,327,041</u></u>

The accompanying notes are an integral part of the financial statements.

Ashtabula Area City School District

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Fiscal Year Ended June 30, 2019

Net change in fund balances – total governmental funds \$ (1,877,970)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays and depreciation differed in the current period.

Capital outlay	\$ 881,815	
Depreciation	<u>(2,554,943)</u>	
Total		(1,673,128)

Property tax and grant revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	1,062	
Intergovernmental	(857,841)	
Investment income	<u>(3,127)</u>	
Total		(859,906)

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Retirement of accretion on capital appreciation bonds	1,445,814	
Capital appreciation bonds	269,186	
Compensated absences	<u>(147,832)</u>	
Total		1,567,168

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental Funds.

Accretion on capital appreciation bonds	(181,926)	
Amortization of premium	98,287	
Amortization of loss on refunding	<u>(62,873)</u>	
Total		(146,512)

(Continued)

The accompanying notes are an integral part of the financial statements.

Ashtabula Area City School District

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities (continued)

For the Fiscal Year Ended June 30, 2019

Contractually required contributions are reported as expenditures in governmental funds; however, the Statement of Net Position reports these amounts as deferred outflows.

Pension	3,018,431	
OPEB	<u>120,519</u>	
Total		3,138,950

Except for amounts reported as deferred outflows/inflows, changes in net pension liability and net OPEB liability are reported as pension and OPEB expense in the Statement of Activities.

Pension	(3,454,498)	
OPEB	<u>4,620,130</u>	
Total		1,165,632

The internal service funds used by management to charge the costs of insurance to individual funds are not reported in the Statement of Activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of internal service funds is allocated among the governmental activities.

467,245

Change in net position of governmental activities

\$ 1,781,479

The accompanying notes are an integral part of the financial statements.

Ashtabula Area City School District

Statement of Revenues, Expenditures, and Changes in Fund Balance Budget (Non-GAAP Budgetary Basis) and Actual – General Fund

For the Fiscal Year Ended June 30, 2019

	Budget		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 10,673,458	\$ 10,673,458	\$ 9,983,933	\$ (689,525)
Intergovernmental	29,076,731	30,697,847	30,378,205	(319,642)
Tuition and fees	590,482	623,403	616,912	(6,491)
Earnings on investments	360,784	380,899	376,933	(3,966)
Classroom materials and fees	77,485	81,805	80,953	(852)
Miscellaneous revenue	424,739	448,419	443,750	(4,669)
Total revenues	<u>41,203,679</u>	<u>42,905,831</u>	<u>41,880,686</u>	<u>(1,025,145)</u>
Expenditures:				
Current:				
Instruction:				
Regular education	18,016,667	18,086,218	18,068,066	18,152
Special education	8,031,530	8,062,535	8,054,444	8,091
Vocational education	84,572	84,898	84,813	85
Other instruction	555,894	558,040	557,480	560
Support services:				
Pupil	2,854,454	2,865,474	2,862,598	2,876
Instructional staff	688,359	691,016	690,323	693
Board of education	337,458	338,761	338,421	340
Administration	2,727,634	2,738,164	2,735,416	2,748
Fiscal	847,759	851,032	850,178	854
Business	899,250	902,722	901,816	906
Operation and maintenance of plant	4,457,624	4,474,833	4,470,342	4,491
Pupil transportation	2,944,011	2,955,376	2,952,410	2,966
Central	237,979	238,898	238,658	240
Extracurricular activities	379,103	380,567	380,185	382
Capital outlay	213	214	214	-
Total expenditures	<u>43,062,507</u>	<u>43,228,748</u>	<u>43,185,364</u>	<u>43,384</u>
Excess of revenues (under) expenditures	<u>(1,858,828)</u>	<u>(322,917)</u>	<u>(1,304,678)</u>	<u>(981,761)</u>

(Continued)

The accompanying notes are an integral part of the financial statements.

Ashtabula Area City School District

Statement of Revenues, Expenditures, and Changes in Fund Balance Budget (Non-GAAP Budgetary Basis) and Actual – General Fund (continued)

For the Fiscal Year Ended June 30, 2019

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Other financing sources (uses):				
Transfers – in	1,149	1,213	1,200	(13)
Transfers – out	(46,866)	(47,047)	(47,000)	47
Advances – in	397,740	419,915	415,543	(4,372)
Advances – out	(368,119)	(369,540)	(369,169)	371
Total other financing sources (uses)	<u>(16,096)</u>	<u>4,541</u>	<u>574</u>	<u>(3,967)</u>
Net change in fund balance	(1,874,924)	(318,376)	(1,304,104)	(985,728)
Fund balance at beginning of year	11,662,187	11,662,187	11,662,187	-
Prior year encumbrances appropriated	<u>632,802</u>	<u>632,802</u>	<u>632,802</u>	-
Fund balance at end of year	\$ <u>10,420,065</u>	\$ <u>11,976,613</u>	\$ <u>10,990,885</u>	\$ <u>(985,728)</u>

The accompanying notes are an integral part of the financial statements.

Ashtabula Area City School District

Statement of Fund Net Position Proprietary Funds

June 30, 2019

	<u>Governmental Activities Internal Service Funds</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 3,782,499
Prepaid items	<u>74,805</u>
Total assets	<u>3,857,304</u>
Liabilities:	
Account payable	40,431
Accrued wages and benefits	1,081
Claims payable	<u>988,089</u>
Total liabilities	<u>1,029,601</u>
Net position:	
Unrestricted net position	\$ <u><u>2,827,703</u></u>

The accompanying notes are an integral part of the financial statements.

Ashtabula Area City School District

Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Funds

For the Fiscal Year Ended June 30, 2019

	<u>Governmental Activities</u> Internal Service Funds
Operating revenues:	
Charges for services	\$ 9,141,750
Miscellaneous	<u>135,224</u>
Total operating revenues	<u>9,276,974</u>
Operating expenses:	
Claims	8,633,161
Fiscal	6,989
Purchased services	<u>169,579</u>
Total operating expenses	<u>8,809,729</u>
Change in net position	467,245
Total net position at beginning of year	<u>2,360,458</u>
Total net position at end of year	\$ <u>2,827,703</u>

The accompanying notes are an integral part of the financial statements.

Ashtabula Area City School District

Statement of Cash Flows Proprietary Funds

For the Fiscal Year Ended June 30, 2019

	<u>Governmental Activities</u> Internal Service Funds
Cash flows from operating activities:	
Cash received from other funds	\$ 9,276,974
Cash payments for claims and contractual services	<u>(8,908,890)</u>
Net cash provided by operating activities	368,084
Net increase in cash and cash equivalents	368,084
Cash and cash equivalents at beginning of year	<u>3,414,415</u>
Cash and cash equivalents at end of year	\$ <u><u>3,782,499</u></u>
Reconciliation of operating income to net cash from operating activities:	
Operating income	\$ 467,245
Adjustments:	
Change in assets:	
Increase in prepaid items	(64,093)
Changes in liabilities:	
Increase in payables	40,431
Decrease in accrued wages and benefits	(2,288)
Decrease in claims payable	<u>(73,211)</u>
Net cash provided by operating activities	\$ <u><u>368,084</u></u>

The accompanying notes are an integral part of the financial statements.

Ashtabula Area City School District

Statement of Fiduciary Net Position Fiduciary Funds

June 30, 2019

	<u>Private Purpose Trust Funds</u>	<u>Agency</u>
Assets:		
Equity in pooled cash and cash equivalents	\$ <u>108,058</u>	\$ <u>29,307</u>
Liabilities:		
Due to students	<u>-</u>	\$ <u>29,307</u>
Net position:		
Held in trust for scholarships	\$ <u>108,058</u>	

The accompanying notes are an integral part of the financial statements.

Ashtabula Area City School District

Statement of Changes in Fiduciary Net Position Fiduciary Funds

For the Fiscal Year Ended June 30, 2019

	Private Purpose <u>Trust Funds</u>
Additions:	
Investment earnings	\$ 11
Miscellaneous	<u>6,050</u>
Total additions	<u>6,061</u>
Deductions:	
Regular education	106
Extracurricular activities	<u>15,001</u>
Total deductions	<u>15,107</u>
Change in net position before transfers	(9,046)
Transfer – in	<u>150</u>
Change in net position	(8,896)
Total net position at beginning of year	<u>116,954</u>
Total net position at end of year	\$ <u><u>108,058</u></u>

The accompanying notes are an integral part of the financial statements.

Ashtabula Area City School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

Note 1: Description of District

The Ashtabula Area City School District (the “District”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District operates under an elected Board of Education (five members) and is responsible for the provision of public education to residents of the District as mandated by state and/or federal agencies. The District is defined by Section 3311.02 of the Ohio Revised Code. Average daily membership (ADM) of the District was 3,945 (this includes open enrollment and online students). The District employed 30 administrative and supervisory personnel, 278 certified employees and 185 non-certificated employees.

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 more significant of the District’s accounting policies are described below.

A. Reporting Entity

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

Within the District’s boundaries, St. John School K-12, is operated through the Youngstown Catholic Diocese. Current legislation provides funding to this school. These monies are received and disbursed on behalf of the school by the Treasurer of the District, as directed by the school. The accounting for these state monies is reflected as a special revenue fund 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; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units.

The District is associated with three organizations, which are defined as jointly governed organizations and a related organization.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 2: Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

Jointly Governed Organizations

Northeast Ohio Management Information Network (NEOMIN)

NEOMIN is a jointly governed organization among 35 School Districts in Trumbull and Ashtabula Counties. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member Districts. Each of the Districts supports NEOMIN based upon a per pupil charge. The District contributed \$86,323 to NEOMIN during fiscal year 2019.

Superintendents of the participating Districts are eligible to be voting members of the Governing Board which consists of 10 members: the Trumbull and Ashtabula County Educational Service Center's Superintendents (permanent members), three Superintendents from Ashtabula County School Districts, three Superintendents from Trumbull County School Districts, and a Treasurer from each county. The degree of control exercised by any participating District is limited to its representation on the Governing Board. A complete set of separate financial statements may be obtained from the Trumbull County Educational Service Center, 6000 Youngstown Warren Road, Niles, Ohio, 44446.

State Support Team (SST) - Region 5

The SST is an Educational Regional Service System whose mission is to provide regional districts with leadership, technical assistance and high quality professional development in the service areas of school improvement, literacy, early learning and school readiness and special education compliance. The 16 State Support Teams are responsible for the regional delivery of school improvement, literacy, special education compliance, and early learning and school readiness services to districts using a differentiated technical assistance structure of support based upon need. The teams work through the Office of Exceptional Children, Office of Literacy, Office of Early Learning and School Readiness and the Office of Field Relations by providing technical assistance and professional development. The SSTs include staff and services formerly provided by the Special Education Regional Resources Centers (SERRCs) and the Regional School Improvement Teams (RSITs). Each School District's degree of control is limited to its representation on the Governing Board. The SST is its own budgeting and taxing authority. The School District made no contributions for fiscal year 2019.

House Bill 115 (HB 115) establishes the Educational Regional Service System (ERSS) and requires the creation of a coordinated, integrated and aligned system to support state and school districts efforts to improve school effectiveness and student achievement. It is the intent of the general assembly that the educational regional service system would reduce the unnecessary duplication of programs and services and provide for a more streamlined and efficient delivery of education services without reducing the availability of the services needed by school districts and school. Financial information can be obtained by contacting the Treasurer at the Mahoning County Educational Service Center, 7320 North Palmyra Road, Canfield, Ohio 44406.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 2: Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

Jointly Governed Organizations (continued)

Ashtabula County Technical & Career Center

The Ashtabula County Technical & Career Center (A-Tech) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The A-Tech is operated under the direction of a Board consisting of representatives from some of the participating School Districts' elected boards. Each School District's degree of control is limited to its representation on the Governing Board. The Board is its own budgeting and taxing authority. The District also contracts with A-Tech for the Able/English Language Learners program. In fiscal year 2019 the District had payments of \$193,652 to A-Tech. Financial information can be obtained from Lindsey Elly, Treasurer at Ashtabula County Technical & Career Center, 1565 State Route 167, Jefferson, Ohio 44047.

Related Organization

Harbor-Topky Memorial Library

The Harbor-Topky Memorial Library is a separate body politic. The Board of Education appoints new Trustees, by resolution, upon recommendation of the Trustees.

Management believes the financial statements included in this report represent all of the funds over which the District is financially accountable.

B. Fund Accounting

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental, proprietary and fiduciary.

Governmental Funds: Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose 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, liabilities and deferred inflows of resources is reported as fund balance. The following are the District's major governmental funds:

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

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 2: Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

Debt Service Fund – This fund accounts for the collection of property taxes that are used for the payment of principal and interest and fiscal charges on general obligation debt.

Permanent Improvement Fund – This fund accounts for the collection of property taxes that are used for acquiring, constructing, or improving permanent improvements.

Other governmental funds of the District account for food service, grants, other resources, and other capital projects of the District whose use is restricted to a particular purpose.

Proprietary Funds: Proprietary funds focus on the determination of operating income/loss, changes in net position, financial position and cash flows and are classified as either enterprise or internal service. The District has no enterprise funds. The following is a description of the District's internal service funds.

Internal Service Funds – Internal service funds are used to account for the financing of services provided by one department or agency to other departments or agencies of the District on a cost-reimbursement basis. The Employee Health Insurance Fund accounts for a self-insurance program which provides medical, prescription, dental, and life insurance benefits to the District's employees. The Workers' Compensation Fund accounts for the payment of premiums and claims to be paid to the state workers' compensation agency.

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 trust funds are private purpose trusts funds, which account for programs that provide assistance to needy students.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds are used to account 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. Internal service funds operating activity is eliminated to avoid overstatement of revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus. Governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 2: Summary of Significant Accounting Policies (continued)

C. Basis of Presentation and Measurement Focus (continued)

The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the 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 which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

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 non-major funds are aggregated into a single column. The internal service funds are presented on a separate proprietary fund statement. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The Statement of Cash Flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

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

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Revenues – Exchange and Non-exchange Transactions: Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of fiscal year end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property 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 7).

Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the 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 non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, grants, intergovernmental, interest, and accounts.

Unearned Revenue: Unearned revenue represents amounts under the accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned. The District does not have any unearned revenue at June 30, 2019.

Deferred Outflows/Inflows of Resources: In addition to assets, the financial statements that report net position may include a section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, deferred outflows of resources are reported on the government-wide Statement of Net Position for deferred charges on refunding, pension, and OPEB. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its acquisition price. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 13 and 14.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 2: Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

In addition to liabilities, the statements that report net position may include 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, pension, OPEB, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2019, but which were levied to finance fiscal year 2020 operations. These amounts have been recorded as a deferred inflow 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 delinquent property taxes, investment income and intergovernmental revenue. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide Statement of Net Position, see Notes 13 and 14.

Expenditures/Expenses: On the accrual basis of accounting, expenses are recognized at the time they are incurred. 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. Budgetary Process

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

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

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

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 2: Summary of Significant Accounting Policies (continued)

E. Budgetary Process (continued)

Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be re-appropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the legal level of budgetary control for the fund.

F. Cash and Investments

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as “equity in pooled cash and cash equivalents” on the financial statements.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts and nonnegotiable certificate of deposits are reported at cost. See Note 6 for specific disclosures relating to investments.

STAR Ohio (State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer’s Office which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but the District has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants*. The District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value. At June 30, 2019, the average days to maturity was 53.3 days. STAR Ohio carries a AAAM rating by Standard & Poor’s.

For the fiscal year 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during the fiscal year amounted to \$389,809. The amount allocated from other funds during fiscal year 2019 amounted to \$103,006.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2019, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

H. Inventory

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

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 2: Summary of Significant Accounting Policies (continued)

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value. The District maintains a capitalization threshold of \$5,000 for individual items. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	20 years
Buildings	20 – 60 years
Furniture and equipment	5 – 20 years
Vehicles	8 – 20 years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental column of the Statement of Net Position.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual in the government-wide financial statements for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is an estimate based on the District's past experience of making termination payments. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 2: Summary of Significant Accounting Policies (continued)

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the Internal Service Funds are reported on the proprietary fund financial statements.

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

M. Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pension/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net 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 systems report investments at fair value.

N. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their 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. Net position restricted for other purposes include resources which will be used for athletics, special education and other grants.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available. As of June 30, 2019, the District did not have net position restricted by enabling legislation.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 2: Summary of Significant Accounting Policies (continued)

O. 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 category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually-required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

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

Committed: The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be re-deployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Board, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. 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 or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board or a District official delegated that authority by the District Board of Education. Through the District’s purchasing policy, the Board has given the Treasurer the authority to constrain monies for intended purposes.

Unassigned: Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 2: Summary of Significant Accounting Policies (continued)

O. Fund Balance (continued)

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

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are charges for services for the health-related insurance program and workers compensation program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the proprietary funds.

Q. 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 and after non-operating revenues/expenses in the proprietary 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.

R. Estimates

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

S. Reclassification

Prior year data presented in the Management's Discussion and Analysis have been reclassified in order to be comparative and provide an understanding of the changes in financial position and operations.

Note 3: Change in Accounting Principle

For fiscal year 2019, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations* and Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 3: Change in Accounting Principle (continued)

GASB 83, *Certain Asset Retirement Obligations*, issued in November 2016 and effective for periods beginning after June 15, 2018, requires a liability to be recognized by a government that will eventual retire, dispose of, or environmental remediate upon retirement, a capital asset and that retirement or disposal carries with it legally enforceable obligations. Implementation of this did not have any effect on the District's financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, issued in April 2018 and effective for periods beginning after June 15, 2018, this pronouncement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. Information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed thus providing users with better information to understand the effects of debt on a government's future resource flows. The District does not currently possess any debt eligible under this pronouncement as direct borrowings or direct placements.

GASB Statements and guidance to be implemented in future reporting periods include GASB Statement No. 84, *Fiduciary Activities*, GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, GASB Statement No. 87, *Leases* and GASB Statement No. 90, *Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61*. The District is currently evaluating the impact that these Statements will have on its financial statements and disclosures.

Note 4: Fund Balances

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

<u>Fund Balances</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Permanent Improvement Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:					
Inventory	\$ 117,841	\$ -	\$ -	\$ 15,678	\$ 133,519
Restricted for:					
Community activities	-	-	-	44,181	44,181
Athletics	-	-	-	51,815	51,815
Auxiliary services	-	-	-	39,722	39,722
Special education programs	-	-	-	749	749
Debt service payments	-	8,564,614	-	-	8,564,614
Improving teacher quality	-	-	-	16,147	16,147
Other purposes	11,000	-	-	197,886	208,886
Capital improvements	-	-	2,355,201	732,962	3,088,163
Total restricted	<u>11,000</u>	<u>8,564,614</u>	<u>2,355,201</u>	<u>1,083,462</u>	<u>12,014,277</u>

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 4: Fund Balances (continued)

Fund Balances	General Fund	Debt Service Fund	Permanent Improvement Fund	Non-major Governmental Funds	Total Governmental Funds
Committed to:					
Capital improvements	-	-	-	291,870	291,870
Termination benefits	<u>129,281</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>129,281</u>
Total committed	<u>129,281</u>	<u>-</u>	<u>-</u>	<u>291,870</u>	<u>421,151</u>
Assigned to:					
Encumbrances	618,644	-	-	-	618,644
Subsequent year's budget:					
Appropriation of fund balance	2,575,421	-	-	-	2,575,421
Other purposes	<u>36,532</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,532</u>
Total assigned	<u>3,230,597</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,230,597</u>
Unassigned (deficit)	<u>7,684,278</u>	<u>-</u>	<u>-</u>	<u>(156,781)</u>	<u>7,527,497</u>
Total fund balances	\$ <u>11,172,997</u>	\$ <u>8,564,614</u>	\$ <u>2,355,201</u>	\$ <u>1,234,229</u>	\$ <u>23,327,041</u>

Note 5: Accountability

The following funds had negative fund balances at June 30, 2019:

Non-Major Special Revenue Funds:

Food Service	\$ 71,786
Public School Preschool	6,327
Title I Fund	32,086
Title VI-B Special Education	14,753
Preschool Grant for the Handicapped	1,345
Title III – LEP	14,806

The deficits in the above funds are due to timing differences in accruing revenues and expenditures. The General Fund is liable for any deficit fund balance or negative cash balance in these funds and will provide operating transfers when cash is required, not when accruals occur.

Note 6: 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.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 6: Deposits and Investments (continued)

Inactive deposits are monies identified as not required for use within the current 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 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;
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;
4. Investment grade obligations of state and local governments, and public authorities;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section or 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 bankers' acceptances and commercial paper notes for a period not to exceed 180 days from the date of purchase in an amount not to exceed 40 percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 6: Deposits and Investments (continued)

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial Credit Risk is the risk that in the event of bank failure, the District's deposits may not be returned from the depository. The District has no deposit policy for custodial risk beyond the requirements of State statute. Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), as well as qualified securities pledge by the institution holding the assets.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the District or a qualified trustee by the financial institution as security for repayment, or by establishing and pledging to the Treasurer of State a single pool of collateral for the benefit of every public depositor. The total market value of the securities pledged must meet either of the following:

One hundred two percent of the total amount of all uninsured public deposits; or

An amount determined by rules adopted by the treasurer of state that set forth the criteria for determining the aggregate market value of the pool of eligible securities pledged by a public depository.

At year end, the carrying amount of the District's deposits was \$22,772,873 and the bank balance was \$22,949,221. Of the bank balance, \$16,125,302 was covered by federal depository insurance and \$6,823,919 was uninsured and was collateralized through the Ohio Pooled Collateral System. At fiscal year-end, the District had \$100 in cash on hand, which is included on the balance sheet of the District as part of "equity in pooled cash and cash equivalents."

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 6: Deposits and Investments (continued)

Investments

Investments are reported at fair value. As of June 30, 2019, the District had the following investments:

	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1-5 Years</u>
Federal Farm Credit Bank (FFCB)	\$ 2,648,531	\$ 549,417	\$ 2,099,114
Federal Home Loan Bank (FHLB)	2,460,790	1,242,092	1,218,698
Money market	<u>34,184</u>	<u>34,184</u>	<u>-</u>
Total portfolio	<u>\$ 5,143,505</u>	<u>\$ 1,825,693</u>	<u>\$ 3,317,812</u>

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.

The District has the following recurring fair value measurements as of June 30, 2019:

- FFCB and FHLB are measured based on Level 2 inputs, using matrix pricing.
- Money market is valued at amortized cost (Level 1), which approximates fair value.

Interest Rate Risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The District's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase to maximize the returns on the excess cash balances consistent with the safety of the monies and the desired liquidity of the investments.

Credit Risk is addressed by the District's investment policy by the requirements that all investments are authorized by the Ohio Revised Code and that portfolio be diversified both by types of investment and issuer. The money market is unrated. All other investments of the District are registered and carry a rating AA+ by Standard & Poor's.

Custodial Risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to delivery of the securities representing such investments to the Treasurer or qualified trustee.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 6: Deposits and Investments (continued)

Investments (continued)

Concentration of Credit Risk is defined by the Governmental Accounting Standards Board as 5% or more in the securities of a single issuer. The District places no limit on the amount it may invest in any one issuer. The following is the District's allocation as of June 30, 2019:

	<u>Percentage of Investments</u>
Federal Farm Credit Bank Bonds	51.49%
Federal Home Loan Bank Bonds	47.85
Money market	0.66

Note 7: Property Taxes

Property taxes are levied, assessed and collected 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 year.

Property taxes include amounts levied against all real, public utility, and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar year 2019 represents collections of calendar year 2018 taxes. Real property taxes received in calendar year 2019 were levied after April 1, 2018, on the assessed value listed as of January 1, 2018. Assessed values for real property are established by the state law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2019 represents collections of calendar year 2018 taxes. Public utility real and tangible personal property taxes received in calendar year 2019 became a lien December 31, 2017, were levied after April 1, 2018, and are collected in 2019 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The Ashtabula County Treasurer collects property tax on behalf of the District. The Ashtabula County Auditor remits to the District the taxes collected. Tax settlements are made each February and August for real property taxes. Second-half real property tax payments collected by the County by June 30, 2019, are available to finance fiscal year 2019 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 7: Property Taxes (continued)

The assessed values of real and tangible personal property on which the 2019 taxes were collected were as follows:

	2018		2019	
	Second-Half Collections		First-Half Collections	
	Amount	Percent	Amount	Percent
Real property	\$ 393,960,100	90.26%	\$ 391,287,440	89.99%
Public utility personal property	42,514,120	9.74%	43,542,950	10.01%
Total assessed value	\$ <u>436,474,220</u>	<u>100.00%</u>	\$ <u>434,830,390</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 49.55		\$ 49.55	

Accrued property taxes receivables include real property and public utility taxes which are measurable as of June 30, 2019, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end.

The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources. The amount available as an advance at June 30 is recognized as revenue. The amount available to the District as an advance at June 30, 2019, was \$2,071,522 in the General Fund, \$398,363 in the Bond Retirement Fund, \$268,241 in the Permanent Improvement Fund and \$38,757 in the Classroom Facilities Maintenance Fund.

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

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 8: Receivables

Receivables at June 30, 2019, consisted of taxes, accounts and intergovernmental and interest. 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 intergovernmental receivables reported on the Statement of Net Position follows:

Governmental activities:	
IDEA B Grants	\$ 193,359
School improvement	42,763
Title I	417,155
Title II-A	69,324
Title VI-B	3,113
Title IV-A	16,629
Early Childhood Education	64,474
Ohio Lottery Proceeds	94,913
Miscellaneous	24,992
State Employees Retirement System Refund	<u>47,286</u>
Total governmental activities	\$ <u>974,008</u>

Note 9: Budgetary Basis of Accounting

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

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP);
- (b) Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP);
- (c) Encumbrances are treated as expenditures (budget) rather than a restricted, committed, or assigned fund balance (GAAP).

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 9: Budgetary Basis of Accounting (continued)

- (d) To reclassify the net change in fund balance for funds combined with the General Fund for GASB Statement No. 54. Certain funds that are legally budgeted in separate special revenue funds are considered part of the General Fund on a GAAP basis. These include the Termination Benefits Fund, the Uniform School Supplies Fund, the Public School Support Fund, and the Underground Storage Tanks Fund.
- (e) Advances in and advances out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statement for the general fund:

	<u>General</u>
GAAP basis	\$ (501,836)
Net adjustment for revenue accruals	70,359
Advances - in	415,543
Net adjustment for expenditure accruals	(145,839)
Advances - out	(369,169)
Adjustment for encumbrances	(837,142)
Funds budgeted elsewhere	<u>63,980</u>
Budget basis	<u>\$ (1,304,104)</u>

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 10: Capital Assets

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	Balance <u>6/30/18</u>	Additions	Disposals	Balance <u>6/30/19</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,741,522	\$ -	\$ -	\$ 1,741,522
Construction in progress	<u>419,490</u>	<u>343,346</u>	<u>(762,836)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>2,161,012</u>	<u>343,346</u>	<u>(762,836)</u>	<u>1,741,522</u>
Capital assets, being depreciated:				
Land improvements	2,285,700	795,465	-	3,081,165
Buildings	111,908,494	194,392	-	112,102,886
Furniture and equipment	1,907,564	311,448	(15,113)	2,203,899
Vehicles	<u>3,431,381</u>	<u>-</u>	<u>-</u>	<u>3,431,381</u>
Total capital assets, being depreciated	<u>119,533,139</u>	<u>1,301,305</u>	<u>(15,113)</u>	<u>120,819,331</u>
Less accumulated depreciation:				
Land improvements	(415,190)	(134,172)	-	(549,362)
Buildings	(16,748,021)	(2,091,012)	-	(18,839,033)
Furniture and equipment	(946,875)	(130,606)	15,113	(1,062,368)
Vehicles	<u>(2,267,691)</u>	<u>(199,153)</u>	<u>-</u>	<u>(2,466,844)</u>
Total accumulated depreciation	<u>(20,377,777)</u>	<u>(2,554,943)</u>	<u>15,113</u>	<u>(22,917,607)</u>
Capital assets being depreciated, net	<u>99,155,362</u>	<u>(1,253,638)</u>	<u>-</u>	<u>97,901,724</u>
Total capital assets, net	\$ <u>101,316,374</u>	\$ <u>(910,292)</u>	\$ <u>(762,836)</u>	\$ <u>99,643,246</u>

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 10: Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular education	\$ 1,478,975
Special education	419,995

Support services:

Instructional staff	6,319
Administration	77,379
Operation and maintenance of plant	57,398
Pupil transportation	168,300
Central	2,584

Operation of non-instructional services:

Food service	131,908
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Extracurricular activities

113,095

Facilities and construction services

98,990

Total depreciation expense	<u>\$ 2,554,943</u>
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Note 11: Long-Term Liabilities

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

	<u>Principal Outstanding 06/30/18</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding 06/30/19</u>	<u>Amounts Due in One Year</u>
Governmental activities:					
Refunded OSFC					
construction bonds					
2.00% – 4.00% – 12/01/2030	\$ 23,830,000	\$ -	\$ -	\$ 23,830,000	\$ 1,000,000
Refunded OSFC construction					
capital appreciation bonds					
28.77% – 12/01/2020	354,958	-	(269,186)	85,772	85,772
Accretion on refunded					
capital appreciation bonds	1,853,793	181,926	(1,445,814)	589,905	589,905
Premium on					
construction bonds	1,228,582	-	(98,287)	1,130,295	-
Net pension liability:					
SERS	8,587,102	-	(312,345)	8,274,757	-
STRS	32,431,978	-	(2,594,161)	29,837,817	-
Net OPEB liability:					
SERS	3,911,721	170,977	-	4,082,698	-
STRS	5,326,730	-	(5,326,730)	-	-
Compensated absences	<u>2,847,647</u>	<u>313,024</u>	<u>(165,192)</u>	<u>2,995,479</u>	<u>357,453</u>
Total governmental activities					
long-term liabilities	<u>\$ 80,372,511</u>	<u>\$ 665,927</u>	<u>\$ (10,211,715)</u>	<u>\$ 70,826,723</u>	<u>\$ 2,033,130</u>

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 11: Long-Term Liabilities (continued)

The refunded OSFC construction bonds and capital appreciation bonds will be paid from the Debt Service Fund. Compensated absences will be paid from the General Fund.

Principal and interests requirements to retire the OSFC bonds outstanding at June 30, 2019 are as follows:

	Refunded Bond	
	Principal	Interest
2020	\$ 1,085,772	\$ 1,490,184
2021	1,735,000	824,307
2022	1,785,000	774,853
2023	1,835,000	714,724
2024	1,910,000	639,824
2025-2029	10,690,000	2,033,660
2030-2031	4,875,000	196,900
Total	\$ <u>23,915,772</u>	\$ <u>6,674,452</u>

On January 11, 2012, the District issued \$32,724,958 in general obligation bonds for the purpose of refunding general obligation bonds outstanding in order to take advantage of lower interest rates. The bonds were sold at a premium of \$2,215,574 with an issue discount of \$348,126. Proceeds of \$34,238,553 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the general obligation bonds. As a result, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2019, no defeased bonds are outstanding.

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 effects of these debt limitations at June 30, 2019, are a voted debt margin of \$23,783,577 and an unvoted debt margin of \$434,830.

Note 12: Risk Management

A. General Risk

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The District has addressed these various types of risk by purchasing a comprehensive insurance policy through commercial carriers.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 12: Risk Management (continued)

A. General Risk (continued)

Property (buildings and contents), boiler and machinery insurance, and casualty and fleet insurance, are provided through Love Insurance Agency. Blanket limit for the property insurance is \$162,695,988 and for the boiler and machinery insurance is \$150,000,000, both with \$1,000 deductibles. For the casualty and fleet insurance there is a combined single limit of \$1,000,000 per accident with \$500 comprehensive and \$500 collision deductibles. The renewal date is January 22, 2022.

The School District also maintains a variety of liability insurance coverages with varying deductibles. The liability insurance on District vehicles has a combined single-limit bodily injury and property damage coverage in the amount of \$1,000,000 per occurrence (with no deductible or aggregate). The District also carries public official and employee liability insurance coverage with a \$1,000,000 limit of liability and \$4,000,000 educators excess liability. The renewal date is January 22, 2022.

Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

B. Workers' Compensation

The State of Ohio provides workers' compensation coverage. The District pays the State Workers' Compensation System a premium based on a percentage of salaries. This percentage is calculated based on accident history and administrative costs.

C. Health Insurance

The District has established an Internal Service Self-Insurance Fund, in conjunction with a formalized risk management program, in an effort to minimize risk exposure and control claims and premium costs.

This Self-Insurance Fund was established January 1994, for the purpose of accumulating balances sufficient to self-insure basic medical, dental, vision, and prescription drug coverage and permit excess umbrella coverage for claims over a pre-determined level. Board and employee premium contributions are determined by negotiated agreement. Amounts are paid into this fund from the General Fund and certain non-major governmental funds. Claims payments are made on an as-incurred basis, thus no reserve remains with the insurance carrier.

Expenses for claims are recorded as other expenses when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount. Claim liabilities are re-evaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 12: Risk Management (continued)

C. Health Insurance (continued)

Liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using expected future investment assumptions as determined by the third party administrator. These liabilities are reported at their present value of \$988,089 at June 30, 2019.

A summary of changes in self-insurance claims for the current and prior fiscal year follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2019	\$ 1,061,300	\$ 8,633,161	\$ (8,706,372)	\$ 988,089
2018	1,142,600	7,050,579	(7,131,879)	1,061,300

Note 13: Pension Plans

A. Net Pension Liability

The net pension liabilities reported on the Statements of Net Position represent 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 occurred in the past.

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 these estimates annually.

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

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 13: Pension Plans (continued)

A. Net Pension Liability (continued)

GASB Statement No. 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

B. Plan Description – School Employees Retirement System (SERS)

Plan Description – 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 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 65 with 5 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.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 13: Pension Plans (continued)

B. Plan Description – School Employees Retirement System (SERS) (continued)

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

An individual whose benefit effective date is before April 1, 2018, is eligible for a cost of living adjustment (COLA) on the first anniversary date of the benefit. Beginning April 1, 2018, new benefit recipients must wait until the fourth anniversary of their benefit for COLA eligibility. The COLA is added each year to the base benefit amount on the anniversary date of the benefit. A three-year COLA suspension is in effect for all benefit recipients for the years 2018, 2019, and 2020. Upon resumption of the COLA, it will be indexed to the percentage increase in the CPI-W, not to exceed 2.5% and with a floor of 0.0%, per House Bill 49.

Funding Policy – Plan members are required to contribute 10.0% of their annual covered salary and the District is required to contribute 14.0% 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 10.0% for plan members and 14.0% 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, 2019, the allocation to pension, death benefits, and Medicare B was 13.5% while 0.5% as allocated to the Health Care Fund.

The District's contractually-required contribution to SERS was \$694,394 for fiscal year 2019. The District contributed 100% of the required contribution as of June 30, 2019.

C. Plan Description – State Teachers Retirement System (STRS)

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

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

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 13: Pension Plans (continued)

C. Plan Description – State Teachers Retirement System (STRS) (continued)

The DB plan offers an annual retirement allowance, payable for life, based on the average of the member's five highest years of earnings multiplied by 2.2% for each year of credited service. For July 1, 2015 and earlier, the annual allowance is determined by multiplying final average salary (average of three highest years of earnings) by 2.2% for the first 30 years of credited service. Each year over 30 years is incrementally increased by 0.1% starting at 2.5% for the 31st year of contributing service up to a maximum allowance of 100% of final average salary. Upon reaching 35 years of Ohio service, the first 31 years of Ohio contributing service are multiplied by 2.5%, and each year over 31 years is incrementally increased by 0.1% starting at 2.6% for the 32nd year.

Effective August 1, 2017 through July 1, 2019, members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 27 years of service, or 30 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. Retirement eligibility for reduced benefits will be five years of service credit and age 60, or 30 years of service credit regardless of age.

The DC Plan benefits are established under Chapter 3307.80 to 3307.89 of the Ohio Revised Code. The DC Plan allows members to place all their member contributions and 9.53% of the 14.00% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47% of the 14.00% 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. Employer contributions into member accounts are vested after the first anniversary of the first day of paid service. Members vest 20.00% per year in employer contributions and all gains and losses on those contributions. Members who become disabled are entitled only to their account balances. The member's beneficiary is entitled to receive the member's account balance should he/she die before retirement benefits begin.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12.00% of the 14.00% member rate goes to the DC Plan and 11.53% goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. A member's defined benefit is determined by multiplying 1.00% of the member's final average salary by the member's years of service credit. 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.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 13: Pension Plans (continued)

C. Plan Description – State Teachers Retirement System (STRS) (continued)

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 10 years of qualifying service credit that apply for disability benefits.

A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans.

Administrative Expenses – The costs of administering the Defined Benefit and postemployment health care plans are financed by investment income. The administrative costs of the Defined Contribution Plan are financed by participant fees.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2019, the employer rate was 14% and the plan members were also required to contribute 14% of covered salary. The fiscal year 2019 contribution rates were equivalent to the statutory maximum rates.

The District's contractually required contribution to STRS was \$2,324,037 for fiscal year 2019. Of this amount \$394,312 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 for SERS and July 1, 2018 for STRS. 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 contributions of all participating entities. Subsequent payments made during the current fiscal year are accounted for as deferred outflows.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 13: Pension Plans (continued)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of net pension liability prior measurement date	0.143723%	0.136526%	
Proportion of net pension liability current measurement date	<u>0.144482%</u>	<u>0.135702%</u>	
Change in proportionate share	<u>0.000759%</u>	<u>(0.000824)%</u>	
Proportionate share of the net pension liability	\$ 8,274,757	\$ 29,837,817	\$ 38,112,574
Pension expense	\$ 667,977	\$ 2,786,521	\$ 3,454,498

At June 30, 2019, 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>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 453,818	\$ 688,748	\$ 1,142,566
Change in assumptions	186,862	5,287,824	5,474,686
Changes in proportionate share and difference between District contributions and proportionate share of contributions	77,570	382,076	459,646
District contributions subsequent to the measurement date	<u>694,394</u>	<u>2,324,037</u>	<u>3,018,431</u>
Total deferred outflows of resources	\$ <u>1,412,644</u>	\$ <u>8,682,685</u>	\$ <u>10,095,329</u>

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 13: Pension Plans (continued)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ -	\$ 194,859	\$ 194,859
Difference between projected and actual earnings on pension plan investments	229,269	1,809,332	2,038,601
Changes in proportionate share and difference between District contributions and proportionate share of contributions	<u>119,257</u>	<u>395,611</u>	<u>514,868</u>
Total deferred inflows of resources	\$ <u>348,526</u>	\$ <u>2,399,802</u>	\$ <u>2,748,328</u>

The District reported \$3,018,431 as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. 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:			
2020	\$ 604,954	\$ 2,519,017	\$ 3,123,971
2021	106,640	1,771,986	1,878,626
2022	(271,555)	84,556	(186,999)
2023	<u>(70,315)</u>	<u>(416,713)</u>	<u>(487,028)</u>
Total	\$ <u>369,724</u>	\$ <u>3,958,846</u>	\$ <u>4,328,570</u>

E. 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.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 13: Pension Plans (continued)

E. Actuarial Assumptions – SERS (continued)

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
Investment rate of return	7.50% net of investments expense, including inflation
Cost-of-living adjustment (COLA)	2.50% on and after April 1, 2018
COLA for future retirees will be delayed for three years following commencement	
Actuarial cost method	Entry age normal

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 set-back one year 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% of male rates, and 110% of female rates. Mortality among disabled members were based upon the 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.

The actuarial assumptions used were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015 adopted by the Board on April 21, 2016.

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

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 13: Pension Plans (continued)

E. Actuarial Assumptions – SERS (continued)

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

<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	<u>10.00</u>	3.00
Total	<u>100.00%</u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.50%. 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%). 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%, 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%), or one percentage point higher (8.50%) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
District's proportionate share of the net pension liability	\$ 11,655,620	\$ 8,274,757	\$ 5,440,131

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 13: Pension Plans (continued)

F. Actuarial Assumptions – STRS

Actuarial assumptions used in the June 30, 2019 valuation are based on prior year measurement date of June 30, 2018. The actuarial assumptions used in the valuation are based on the results of an actuarial experience study, effective July 1, 2018. The actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Projected salary increases	2.50% at age 65 to 12.50% at age 20
Investment rate of return	7.45%, net of investment expenses, including inflation
Payroll increase	3.00%

Mortality rates were based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016; pre-retirement mortality rates were based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016; and post-retirement disabled mortality rates were based on RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates 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>100.00%</u>	

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

**Target weights will be phased in over a 24-month period concluding on July 1, 2019.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 13: Pension Plans (continued)

F. Actuarial Assumptions – STRS (continued)

Discount Rate The discount rate used to measure the total pension liability was 7.45% for June 30, 2018 included in the pension liability and related deferred inflow and outflow calculations. 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 increase 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, the plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payment 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 7.45%, 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 (6.45%), or one percentage point higher (8.45%) than the current rate.

	1% Decrease <u>(6.45%)</u>	Current Discount Rate <u>(7.45%)</u>	1% Increase <u>(8.45%)</u>
District's proportionate share of the net pension liability	\$ 43,574,203	\$ 29,837,817	\$ 18,211,829

Note 14: Defined Benefit OPEB Plans

A. Net OPEB Liability/(Asset)

The net OPEB liability/(asset) reported on the Statement of Net Position represents a liability/(asset) 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.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 14: Defined Benefit OPEB Plans (continued)

A. Net OPEB Liability/(Asset) (continued)

The net OPEB liability/(asset) 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/(asset) calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability/(asset). Resulting adjustments to the net OPEB liability/(asset) 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 asset or net OPEB liability on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

B. 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.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 14: Defined Benefit OPEB Plans (continued)

B. Plan Description – School Employees Retirement System (SERS) (continued)

For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5% 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 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the District's surcharge obligation was \$94,801.

The surcharge, added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$120,519 for fiscal year 2019. Of this amount \$94,801 is reported as an intergovernmental payable.

C. Plan Description – State Teachers Retirement System (STRS)

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

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 14: Defined Benefit OPEB Plans (continued)

C. Plan Description – State Teachers Retirement System (STRS) (continued)

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio 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 Ohio. 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% of covered payroll. For the fiscal year ended June 30, 2019, STRS Ohio did not allocate any employer contributions to post-employment health care.

D. OPEB Liabilities/(Assets), OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability/(asset) was measured as of June 30, 2018, and the total OPEB liability/(asset) used to calculate the net OPEB liability/(asset) was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability/(asset) 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 net OPEB liability/asset prior measurement date	0.145757%	0.136526%	
Proportion of net OPEB liability/asset current measurement date	<u>0.147163%</u>	<u>0.135702%</u>	
Change in proportionate share	<u>0.001406%</u>	<u>(0.000824)%</u>	
Proportionate share of the net OPEB liability	\$ 4,082,698	\$ -	\$ 4,082,698
Proportionate share of the net OPEB asset	\$ -	\$ 2,180,593	\$ 2,180,593
OPEB expense (reduction of expense)	\$ 122,400	\$ (4,742,530)	\$ (4,620,130)

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 14: Defined Benefit OPEB Plans (continued)

D. OPEB Liabilities/(Asset), OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

At June 30, 2019, 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>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 66,644	\$ 254,696	\$ 321,340
Changes in proportionate share and difference between District contributions and proportionate share of contributions	45,531	-	45,531
District contributions subsequent to the measurement date	<u>120,519</u>	<u>-</u>	<u>120,519</u>
Total deferred outflows of resources	\$ <u>232,694</u>	\$ <u>254,696</u>	\$ <u>487,390</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ -	\$ 127,048	\$ 127,048
Change in assumptions	366,800	2,971,229	3,338,029
Difference between projected and actual earnings on plan investments	6,125	249,115	255,240
Changes in proportionate share and difference between District contributions and proportionate share of contributions	<u>59,438</u>	<u>69,287</u>	<u>128,725</u>
Total deferred inflows of resources	\$ <u>432,363</u>	\$ <u>3,416,679</u>	\$ <u>3,849,042</u>

The \$120,519 reported as deferred outflows of resources related to OPEB resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 14: Defined Benefit OPEB Plans (continued)

D. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2020	\$ (174,636)	\$ (566,589)	\$ (741,225)
2021	(133,940)	(566,589)	(700,529)
2022	(5,073)	(566,591)	(571,664)
2023	(2,465)	(510,015)	(512,480)
2024	(2,890)	(490,169)	(493,059)
Thereafter	<u>(1,184)</u>	<u>(462,030)</u>	<u>(463,214)</u>
Total	\$ <u>(320,188)</u>	\$ <u>(3,161,983)</u>	\$ <u>(3,482,171)</u>

E. 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.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 14: Defined Benefit OPEB Plans (continued)

E. Actuarial Assumptions – SERS (continued)

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2018, are presented below:

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
Investment rate of return	7.50% net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.62%
Prior measurement date	3.56%
Single equivalent interest rate, net of plan investment expense, including price inflation	
Measurement date	3.70%
Prior measurement date	3.63%
Medical trend assumption	
Medicare	5.375% to 4.750%
Pre-Medicare	7.25% to 4.75%

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

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 14: Defined Benefit OPEB Plans (continued)

E. Actuarial Assumptions – SERS (continued)

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:

<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	<u>10.00</u>	3.00
Total	<u>100.00%</u>	

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70%. 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% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% 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, 2026. 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, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62%, as of June 30, 2018 (i.e., municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the School District’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS’ net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS’ net OPEB liability would be based on health care cost trend rates that are one percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 14: Defined Benefit OPEB Plans (continued)

E. Actuarial Assumptions – SERS (continued)

	1% Decrease <u>(2.70%)</u>	Current Discount Rate <u>(3.70%)</u>	1% Increase <u>(4.70%)</u>
District's proportionate share of the net OPEB liability	\$ 4,909,886	\$ 4,082,698	\$ 3,392,765

	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 3,293,989	\$ 4,082,698	\$ 5,127,093

Assumption Changes Since the Prior Measurement Date Since the prior measurement date, the discount rate was increased from 3.63% to 3.70% and the healthcare cost trend rate was updated from 7.5% decreasing to 5.0% to 7.25% decreasing to 4.75%.

F. Actuarial Assumptions – STRS

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Projected salary increases	12.50% at age 20 to 2.50% at age 65	
Investment rate of return	7.45%, net of investment expenses, including inflation	
Payroll increases	3.00%	
Blended discount rate of return	7.45%	
Health care cost trends	Initial	Ultimate
Medical		
Pre-Medicare	6.00%	4.00%
Medicare	5.00%	4.00%
Prescription Drug		
Pre-Medicare	8.00%	4.00%
Medicare	(5.23)%	4.00%

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% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% 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% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 14: Defined Benefit OPEB Plans (continued)

F. Actuarial Assumptions – STRS (continued)

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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:

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

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

** Target weights will be phased in over a 24-month period concluding on July 1, 2019.

Discount Rate The discount rate used to measure the total OPEB asset was 7.45% as of June 30, 2018. 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 projected to be sufficient to make all projected future benefit payments of current plan members.

Sensitivity of the School District’s Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45%, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45%) or one percentage point higher (8.45%) than the current assumption. Also shown is the net OPEB asset 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.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 14: Defined Benefit OPEB Plans (continued)

F. Actuarial Assumptions – STRS (continued)

	<u>1% Decrease</u> <u>(6.45%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(7.45%)</u>	<u>1% Increase</u> <u>(8.45%)</u>
District's proportionate share of the net OPEB asset	\$ 1,868,972	\$ 2,180,593	\$ 2,442,494

	<u>1% Decrease</u>	<u>Current</u> <u>Trend Rate</u>	<u>1% Increase</u>
District's proportionate share of the net OPEB asset	\$ 2,427,710	\$ 2,180,593	\$ 1,929,625

Note 15: Employee Benefits

The criteria for determining vested vacation and sick leave components are derived from board policy, negotiated agreements and state laws. The Superintendent, Treasurer, 12 month administrators and 12 month classified employees earn vacation. Classified employees accumulate vacation based on the following factors:

<u>Length of Service</u>	<u>Vacation Leave</u>
After 1 Year	2 Weeks
After 5 Years	3 Weeks
After 10 Years	4 Weeks

In addition to the vacation schedule above, classified employees having served the District continuously for more than 15 years shall be entitled to one additional day for each complete year served in the District in excess of 15 years. Vacations for classified employees can be taken any time during the year. Employees may carry over a maximum of 10 days from one year to the next or may choose to be paid for vacation in lieu of time off at their rate of pay.

Sick Leave: Each employee earns sick leave at the rate of one and one-fourth days per month. Sick Leave has an unlimited accumulation of days for certificated personnel and classified personnel.

Service Retirement: Upon retirement, employees shall receive in one lump sum, one-fourth of the accumulated sick leave days multiplied by the per diem rate at the time of retirement up to a maximum of 85 days.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 16: Interfund Transactions

A. Interfund balances

Interfund balances consisted of the following at June 30, 2019, as reported on the fund statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Non-major Governmental Funds	\$ 369,052

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year. Interfund balances between governmental funds are eliminated on the government-wide financial statements.

B. Interfund transfers

As of December 31, 2019, interfund transfers were as follows:

	<u>Transfer From</u>			<u>Total</u>
	<u>General Fund</u>	<u>Permanent Improvement Fund</u>	<u>Non-major Governmental Funds</u>	
Transfer to:				
General Fund	\$ -	\$ -	\$ 1,107	\$ 1,107
Non-Major Governmental Funds	<u>47,000</u>	<u>7,138</u>	<u>-</u>	<u>54,138</u>
Total governmental	<u>47,000</u>	<u>7,138</u>	<u>1,107</u>	<u>55,245</u>
Private Purpose Trusts Fund	<u>-</u>	<u>-</u>	<u>150</u>	<u>150</u>
Total	<u>\$ 47,000</u>	<u>\$ 7,138</u>	<u>\$ 1,257</u>	<u>\$ 55,395</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them in accordance with budgetary authorizations. The transfers from the General Fund to the Non-Major Governmental Funds were made to provide resources for current operations. The transfer from the Permanent Improvement Fund to the Non-Major Governmental Funds were related to the Ohio Schools Facility Construction project. The transfer from Non-Major Governmental Funds to the General Fund related to fund close outs. No transfers were inconsistent with the purpose of the fund making the transfer. In addition, the above transfers are in compliance with the Ohio Revised Code.

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 17: Contingencies

A. Grants

The District receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District at June 30, 2019.

B. Litigation

The District is not involved in any litigation that, in the opinion of management, would have a material effect on the financial statements.

C. School District 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. ODE has finalized the impact of enrollment adjustments to the June 30, 2019 foundation funding for the School District and as a result, a receivable to and a liability of the School District has not been recorded, however, the amount is insignificant.

Note 18: Set-Aside Requirements

The District is required by state statute to annually set aside in the General Fund an amount on a 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 year-end and carried forward to be used for the same purposes in future years.

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

	<u>Capital Improvements</u>
Set-aside reserve balance as of June 30, 2018	\$ -
Current year set-aside requirements	610,691
Qualifying disbursements	<u>(1,971,250)</u>
Total set-aside reserve balance as of June 30, 2019	<u>\$ (1,360,559)</u>

Ashtabula Area City School District

Notes to the Basic Financial Statements (continued)

For the Fiscal Year Ended June 30, 2019

Note 18: Set-Aside Requirements (continued)

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

Note 19: Contractual Commitments and Other Significant Commitments

At June 30, 2019, the District's significant contractual commitments consisted of:

<u>Project</u>	<u>Contract Amount</u>	<u>Amount Paid</u>	<u>Remaining on Contract</u>
Tennis court restoration project	\$ 541,297	\$ -	\$ 541,297

Other significant commitments include the encumbrances outstanding for the General Fund, Permanent Improvement Fund, and Nonmajor Funds were as follows:

	<u>Encumbrances</u>
General Fund	\$ 619,341
Permanent Improvement Fund	87,914
Nonmajor Funds	<u>873,367</u>
Total other significant commitments	<u>\$ 1,580,622</u>

Note 20: Tax Abatements

Under agreements entered into by the City of Ashtabula and the Saybrook Township, property tax revenues were reduced by \$71,197 and \$4,119, respectively.

Ashtabula Area City School District

Required Supplementary Information Schedule of the District's Proportionate Share of the Net Pension Liability School Employees Retirement System of Ohio

For the Last Six Fiscal Years (1)

	<u>2019(1)</u>	<u>2018 (1)</u>	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
District's proportion of the net pension liability	0.144482%	0.143723%	0.147634%	0.145087%	0.142638%	0.142638%
District's proportionate share of the net pension liability	\$ 8,274,757	\$ 8,587,102	\$ 10,805,447	\$ 8,278,822	\$ 7,218,828	\$ 8,482,224
District's covered payroll	\$ 4,774,111	\$ 4,694,671	\$ 5,034,179	\$ 3,941,929	\$ 4,592,921	\$ 4,631,561
District's proportionate share of the net pension liability as a percentage of its covered payroll	173.33%	182.91%	214.64%	210.02%	157.17%	183.14%
Plan fiduciary net position as a percentage of the total pension liability	71.36%	69.50%	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available. Amounts presented for each fiscal year were determined as of the District's measurement date which is June 30 of the prior year.

Ashtabula Area City School District

Required Supplementary Information Schedule of the District's Proportionate Share of the Net Pension Liability State Teachers Retirement System of Ohio

For the Last Six Fiscal Years (1)

	<u>2019(1)</u>	<u>2018 (1)</u>	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
District's proportion of the net pension liability	0.135702%	0.136526%	0.137571%	0.134112%	0.135699%	0.135699%
District's proportionate share of the net pension liability	\$ 29,837,817	\$ 32,431,978	\$ 46,049,177	\$ 37,064,601	\$ 33,006,671	\$ 39,317,331
District's covered payroll	\$ 15,592,543	\$ 15,108,414	\$ 14,564,893	\$ 13,578,550	\$ 13,472,914	\$ 14,519,138
District's proportionate share of the net pension liability as a percentage of its covered payroll	191.36%	214.66%	316.17%	272.96%	244.99%	270.80%
Plan fiduciary net position as a percentage of the total pension liability	77.30%	75.30%	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available. Amounts presented for each fiscal year were determined as of the District's measurement date which is June 30 of the prior year.

Ashtabula Area City School District

Required Supplementary Information Schedule of the District Pension Contributions School Employees Retirement System of Ohio

For the Last Ten Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually-required contribution	\$ 694,394	\$ 644,505	\$ 657,254	\$ 704,785	\$ 519,546
Contributions in relation to the contractually-required contribution	<u>(694,394)</u>	<u>(644,505)</u>	<u>(657,254)</u>	<u>(704,785)</u>	<u>(519,546)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
District covered payroll	\$ 5,143,657	\$ 4,774,111	\$ 4,694,671	\$ 5,034,179	\$ 3,941,929
Contributions as a percentage of covered payroll	13.50%	13.50%	14.00%	14.00%	13.18%
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Contractually-required contribution	\$ 636,579	\$ 641,008	\$ 646,700	\$ 638,548	\$ 698,462
Contributions in relation to the contractually-required contribution	<u>(636,579)</u>	<u>(641,008)</u>	<u>(646,700)</u>	<u>(638,548)</u>	<u>(698,462)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
District covered payroll	\$ 4,592,921	\$ 4,631,561	\$ 4,808,178	\$ 5,079,936	\$ 5,158,508
Contributions as a percentage of covered payroll	13.86%	13.84%	13.45%	12.57%	13.54%

The accompany notes are an integral part of the required supplemental information.

Ashtabula Area City School District

Required Supplementary Information Schedule of the District Pension Contributions State Teachers Retirement System of Ohio

For the Last Ten Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually-required contribution	\$ 2,324,037	\$ 2,182,956	\$ 2,115,178	\$ 2,039,085	\$ 1,900,997
Contributions in relation to the contractually-required contribution	<u>(2,324,037)</u>	<u>(2,182,956)</u>	<u>(2,115,178)</u>	<u>(2,039,085)</u>	<u>(1,900,997)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
District covered payroll	\$ 16,600,264	\$ 15,592,543	\$ 15,108,414	\$ 14,564,893	\$ 13,578,550
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%	14.00%
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Contractually-required contribution	\$ 1,751,479	\$ 1,887,488	\$ 2,072,864	\$ 2,291,453	\$ 2,338,797
Contributions in relation to the contractually-required contribution	<u>(1,751,479)</u>	<u>(1,887,488)</u>	<u>(2,072,864)</u>	<u>(2,291,453)</u>	<u>(2,338,797)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
District covered payroll	\$ 13,472,914	\$ 14,519,138	\$ 15,945,108	\$ 17,626,562	\$ 17,990,746
Contributions as a percentage of covered payroll	13.00%	13.00%	13.00%	13.00%	13.00%

The accompany notes are an integral part of the required supplemental information.

Ashtabula Area City School District

Required Supplementary Information
 Schedule of the District's Proportionate Share of the Net OPEB Liability
 School Employees Retirement System of Ohio

For the Last Three Fiscal Years (1)

	<u>2019(1)</u>		<u>2018 (1)</u>		<u>2017 (1)</u>
District's proportion of the net OPEB liability	0.147163%		0.145757%		0.149660%
District's proportionate share of the net OPEB liability	\$ 4,082,698	\$	3,911,721	\$	4,265,850
District's covered-employee payroll	\$ 4,774,111	\$	4,694,671	\$	5,034,179
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	85.52%		83.32%		84.74%
Plan fiduciary net position as a percentage of the total OPEB liability	13.57%		12.46%		11.49%

(1) Information prior to 2017 is not available. Amounts presented for each fiscal year were determined as of the District's measurement date which is June 30 of the prior fiscal year.

Ashtabula Area City School District

Required Supplementary Information
Schedule of the District's Proportionate Share of the Net OPEB Asset/Liability
State Teachers Retirement System of Ohio

For the Last Three Fiscal Years (1)

	<u>2019(1)</u>	<u>2018 (1)</u>	<u>2017 (1)</u>
District's proportion of the net OPEB asset/liability	0.135702%	0.136526%	0.137571%
District's proportionate share of the net OPEB (asset) liability	\$ (2,180,593)	\$ 5,326,730	\$ 7,357,336
District's covered-employee payroll	\$ 15,592,543	\$ 15,108,414	\$ 14,564,893
District's proportionate share of the net OPEB (asset) liability as a percentage of its covered-employee payroll	(13.98)%	35.26%	50.51%
Plan fiduciary net position as a percentage of the total OPEB (asset) liability	(176.00)%	47.10%	37.30%

(1) Information prior to 2017 is not available. Amounts presented for each fiscal year were determined as of the District's measurement date which is June 30 of the prior fiscal year.

Ashtabula Area City School District

Required Supplementary Information Schedule of the District OPEB Contributions School Employees Retirement System of Ohio

For the Last Ten Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (1)	\$ 120,519	\$ 105,977	\$ 79,031	\$ 75,937	\$ 113,594
Contributions in relation to the contractually required contribution	<u>(120,519)</u>	<u>(105,977)</u>	<u>(79,031)</u>	<u>(75,937)</u>	<u>(113,594)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
District covered payroll	\$ 5,143,657	\$ 4,774,111	\$ 4,694,671	\$ 5,034,179	\$ 3,941,929
Contributions as a percentage of covered payroll	2.34%	2.22%	1.68%	1.51%	2.88%
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Contractually required contribution (1)	\$ 84,998	\$ 84,308	\$ 124,148	\$ 221,581	\$ 159,404
Contributions in relation to the contractually required contribution	<u>(84,998)</u>	<u>(84,308)</u>	<u>(124,148)</u>	<u>(221,581)</u>	<u>(159,404)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
District covered payroll	\$ 4,592,921	\$ 4,631,561	\$ 4,808,178	\$ 5,079,936	\$ 5,158,508
Contributions as a percentage of covered payroll	1.85%	1.82%	2.58%	4.36%	3.09%

(1) Includes surcharge

Ashtabula Area City School District

Required Supplementary Information Schedule of the District OPEB Contributions State Teachers Retirement System of Ohio

For the Last Ten Fiscal Years

	<u>2019</u>	<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>	<u>-</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
District covered payroll	\$ 16,600,264	\$ 15,592,543	\$ 15,108,414	\$ 14,564,893	\$ 13,578,550
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%	0.00%
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Contractually required contribution	\$ 134,729	\$ 145,191	\$ 159,451	\$ 176,266	\$ 179,907
Contributions in relation to the contractually required contribution	<u>(134,729)</u>	<u>(145,191)</u>	<u>(159,451)</u>	<u>(176,266)</u>	<u>(179,907)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
District covered payroll	\$ 13,472,914	\$ 14,519,138	\$ 15,945,108	\$ 17,626,562	\$ 17,990,746
Contributions as a percentage of covered payroll	1.00%	1.00%	1.00%	1.00%	1.00%

The accompany notes are an integral part of the required supplemental information.

Ashtabula Area City School District

Notes to the Required Supplementary Information

For the Fiscal Year Ended June 30, 2019

Note 1: Net Pension Liability

Changes in Assumptions – SERS

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

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

	<u>Fiscal Year 2017-2019</u>	<u>Fiscal Year 2016 and Prior</u>
Wage inflation	3.00%	3.25%
Future salary increases, including inflation	3.50% to 18.20%	4.00% to 22.00%
Investment rate of return	7.50% net of investments expense, including inflation	7.75% net of investments expense, including inflation

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

Changes in Assumptions – STRS

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

	<u>Fiscal Year 2018-2019</u>	<u>Fiscal Year 2017 and Prior</u>
Inflation	2.50%	2.75%
Projected salary increases	12.50% at age 20 to 2.50% at age 65	12.25% at age 20 to 2.75% at age 70
Investment rate of return	7.45%, net of investment expenses, including inflation	7.75%, net of investment expenses, including inflation
Payroll increases	3%	3.5%
Cost-of-Living Adjustments (COLA)	0.0%, effective July 1, 2017	2% simple applied as follows: for members retiring before August 1, 2013, 2% per year; for members retiring August 1, 2013, or later, 2% COLA commences on fifth anniversary of retirement date.

Ashtabula Area City School District

Notes to the Required Supplementary Information (continued)

For the Fiscal Year Ended June 30, 2019

Note 1: Net Pension Liability (continued)

Changes in Assumptions – STRS (continued)

Beginning in fiscal year 2018 post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% 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% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

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

Note 2: Net OPEB Liability

Changes in Assumptions – SERS

Amounts reported for fiscal year 2019 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal bond index rate:

Fiscal year 2019 3.62%

Fiscal year 2018 3.56%

Fiscal year 2017 2.92%

Single equivalent interest rate, net of plan investment expense, including price inflation

Fiscal year 2019 3.70%

Fiscal year 2018 3.63%

Fiscal year 2017 2.98%

Beginning in fiscal year 2019 the healthcare cost trend rate was updated from 7.5% decreasing to 5.0% to 7.25% decreasing to 4.75%.

Changes in Assumptions – STRS

For fiscal year 2019 the discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*. Valuation year per capita health care costs were updated.

Ashtabula Area City School District

Notes to the Required Supplementary Information (continued)

For the Fiscal Year Ended June 30, 2019

Note 2: Net OPEB Liability (continued)

Changes in Assumptions – STRS (continued)

Also for fiscal year 2019, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

For fiscal year 2018, 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)* and the long term expected rate of return was reduced from 7.75% to 7.45%. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1% 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 2019.

**ASHTABULA AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Passed Through Ohio Department of Education:</i>			
<i>Child Nutrition Cluster:</i>			
School Breakfast Program	10.553	2019	\$441,172
National School Lunch Program	10.555	2019	1,283,787
Non-Cash Food Commodities	10.555	2019	102,781
Total Child Nutrition Cluster			<u>1,827,740</u>
Total U.S. Department of Agriculture			<u>1,827,740</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed Through Ohio Department of Education:</i>			
Title I - Grants to Local Educational Agencies	84.010	2018	266,612
	84.010	2019	1,726,500
Subtotal Title I - Grants to Local Educational Agencies			<u>1,993,112</u>
<i>Special Education Cluster:</i>			
IDEA-B - Special Education Grants to State	84.027	2018	149,340
	84.027	2019	837,906
Sub Total - Special Education Grant			<u>987,246</u>
Special Education - Preschool Grant	84.173	2019	25,994
Subtotal - Special Education Cluster			<u>1,013,240</u>
Title VI-B - Rural Education	84.358	2019	85,116
Title III - English Language Acquisition	84.365	2019	14,806
Title II - A Improving Teacher Quality State Grants	84.367	2018	14,836
		2019	209,457
Subtotal - Title II - A Improving Teacher Quality State Grants			<u>224,293</u>
Title VI-A Student Support and Academic Enrichment Program	84.424	2018	6,763
	84.424	2019	47,082
Subtotal - Student Support			<u>53,845</u>
Temporary Emergency Impact Aid For Displaced Students	84.938	2019	<u>81,253</u>
Total - U.S. Department of Education			<u>3,465,665</u>
Total Expenditures of Federal Awards			<u><u>\$5,293,405</u></u>

The accompanying notes are an integral part of this schedule.

**ASHTABULA AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Ashtabula Area City School District (the District) under programs of the federal government for the year ended June 30, 2019. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C – INDIRECT COST RATE

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

NOTE D - CHILD NUTRITION CLUSTER

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

NOTE E – FOOD DONATION PROGRAM

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

NOTE F - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amount from the 2018 to 2019 program:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred</u>
Title I Grants to Local Educational Agencies	84.010	\$ 45,970

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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

Ashtabula Area City School District
Ashtabula County
6610 Sanborn Road
Ashtabula, Ohio 44004

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ashtabula Area City School District, Ashtabula County, (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 10, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. 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 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 District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

March 10, 2020

OHIO AUDITOR OF STATE KEITH FABER



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

Ashtabula Area City School District
Ashtabula County
6610 Sanborn Road
Ashtabula, Ohio 44004

To the Board of Education:

Report on Compliance for each Major Federal Program

We have audited the Ashtabula Area City School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the Ashtabula Area City School District's major federal programs for the year ended June 30, 2019. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on each Major Federal Program

In our opinion, the Ashtabula Area City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

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

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

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

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



Keith Faber
Auditor of State
Columbus, Ohio

March 10, 2020

**ASHTABULA AREA CITY SCHOOL DISTRICT
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
FOR THE YEAR ENDED JUNE 30, 2019**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material weaknesses in internal control reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	No
(d)(1)(vii)	Major Programs (list):	Title I – CFDA #84.010; Special Education Cluster – CFDA #84.027 and #84.173; Supportive Effective Instruction – CFDA #84.367
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR § 200.520?	No

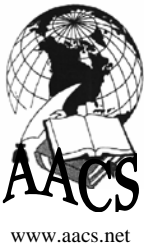
**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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ASHTABULA AREA CITY SCHOOLS

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Board of Education

Debra A. Barrickman • Timothy Fleming • William A. Niemi • Donald Rapose • Christine Seuffert

“Ipsa Scientia Potestas Est – Knowledge Itself Is Power”

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS 2 CFR 200.511(b) June 30, 2019

Finding Number	Finding Summary	Status	Additional Information
2018-001	Medicaid reimbursements posted to incorrect fund.	Fully Corrected	

Superintendent: Dr. Mark R. Potts

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Treasurer: Mark J. Astorino

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OHIO AUDITOR OF STATE
KEITH FABER



ASHTABULA AREA CITY SCHOOL DISTRICT

ASHTABULA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 24, 2020**