NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

OHIO AUDITOR OF STATE
KEITH FABER

NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY
JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

Northeastern Local School District
Defiance County
05751 Domersville Road
Defiance, Ohio 43512-6703

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northeastern Local School District, Defiance 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 the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northeastern Local School District, Defiance County, Ohio, as of June 30, 2019, and the respective changes in cash financial position and the budgetary comparison of the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Matters

Other Information

We applied no procedures to management's discussion and analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 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.

Keith Faber
Auditor of State

Columbus, Ohio

February 3, 2020

The management's discussion and analysis of the Northeastern Local School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2019, within the limitations of the District's cash basis of accounting. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the cash basis financial statements and the notes to the financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2019 are as follows:

- The total net position of the District increased $3,275,584 or 10.11 percent in fiscal year 2019.

- General receipts accounted for $17,715,660 or 87.28 percent of all governmental activities cash receipts. Program specific cash receipts in the form of charges for services and sales and grants and contributions accounted for $2,581,157 or 12.72 percent of total cash receipts of $20,296,817.

- The District had $17,021,233 in cash disbursements related to governmental activities; only $2,581,157 of these cash disbursements were offset by program specific charges for services, grants or contributions. General receipts supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of $17,715,660 were adequate to provide for these programs.

- The District's General Fund had $15,116,080 in cash receipts and other financing sources and $17,057,488 in cash disbursements and other financing uses. During fiscal year 2019, the General Fund's cash balance decreased from $9,499,596 to $7,558,188.

Using the Basic Financial Statements (BFS)

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's cash basis of accounting.

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

Reporting the District as a Whole

Statement of Net Position – Cash Basis and Statement of Activities – Cash Basis

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 – cash basis and the statement of activities – cash basis answer this question. These statements include only net position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting will take into account only the current year's receipts and disbursements if the cash is actually received or paid.

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

The statement of net position – cash basis and the statement of activities – cash basis include the District's programs and services, including instruction, support services, operation and maintenance of facilities, pupil transportation, extracurricular activities, and food service operations.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund, Bond Retirement Fund, Building Fund, Classroom Facilities Fund, and Capital Projects Fund; all other governmental funds are considered non-major.

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 the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various District programs.

Since the District is reporting on the cash basis of accounting, there are no differences in the net position and fund balances or changes in net position and changes in fund balances. Therefore, no reconciliation is necessary between such financial statements.

Reporting the District's Fiduciary Responsibilities

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The District as a Whole

The statement of net position – cash basis provides the perspective of the District as a whole. The table below provides a summary of the District's cash basis net position at June 30, 2019 and 2018.

Net Position - Cash Basis

	Governmental Activities 2019	Governmental Activities 2018
Assets		
Current and other assets	$ 35,660,314	$ 32,384,730
Net Position		
Restricted	$ 23,609,724	$ 22,893,071
Unrestricted	12,050,590	9,491,659
Total net position	$ 35,660,314	$ 32,384,730

At June 30, 2019, the District's net position was $35,660,314. A portion of this amount, or $23,609,724, represents resources that are subject to external restriction on how they may be used. Of this amount, $22,403,921 is restricted for capital projects. The remaining balance of unrestricted net position of $12,050,590 may be used to meet the District's ongoing obligations to its students and creditors.

The following table shows the cash basis change in net position for fiscal years 2019 and 2018.

Change in Net Position - Cash Basis

	Governmental Activities 2019	Governmental Activities 2018
Cash Receipts		
Program cash receipts:		
Charges for services and sales	$ 1,797,230	$ 1,841,416
Operating grants and contributions	783,927	714,795
General receipts:		
Property taxes	11,432,172	8,775,152
Payments in lieu of taxes	37,960	71,227
Unrestricted grants and entitlements	3,559,973	3,543,638
Grants for permanent improvement projects	1,922,119	
Earnings on investments	703,867	125,274
Miscellaneous	59,569	22,108
Bond issuance		21,150,000
Premium on bond issuance		546,016
Total cash receipts	20,296,817	36,789,626

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Change in Net Position - Cash Basis (Continued)

	Governmental Activities 2019	Governmental Activities 2018
Cash Disbursements		
Program disbursements:		
Instruction:		
Regular	$ 5,299,319	$ 5,248,756
Special	1,373,968	1,225,144
Vocational	100,689	103,094
Other	878,057	766,188
Support services:		
Pupil	803,759	756,830
Instructional staff	450,068	416,728
Board of education	102,015	98,375
Administration	972,852	947,535
Fiscal	496,897	373,607
Operations and maintenance	909,011	863,212
Pupil transportation	789,055	745,939
Central	48,836	50,572
Food service operations	488,240	471,293
Other non-instructional services	14,106	25,444
Extracurricular activities	419,191	349,273
Facilities acquisition and construction	2,060,117	92,911
Principal retirement	805,000	405,000
Interest and fiscal charges	1,010,053	83,985
Bond issuance costs		350,424
Total cash disbursements	17,021,233	13,374,310
Change in net position	3,275,584	23,415,316
Net position at beginning of year	32,384,730	8,969,414
Net position at end of year	$ 35,660,314	$ 32,384,730

Governmental Activities

Net position of the District's governmental activities increased $3,275,584. Total governmental cash disbursements of $17,021,233 were offset by program cash receipts of $2,581,157 and general receipts of $17,715,660. Program cash receipts supported 15.16 percent of the total governmental disbursements.

As the preceding table shows, the significant decrease in cash receipts is primarily due to the issuance of bonds for the construction of a new middle school/high school in fiscal year 2018. However, the District saw increases in various other cash receipts. Property tax receipts increased due to a significant increase in public utility personal property valuations. The District began making draws on an Ohio Facilities Construction Commission grant, receiving approximately $1.9 million in fiscal year 2019. This $8.8 million grant will be received over the course of the District's construction project in the coming years. Another significant increase in cash receipts was earnings on investments, which resulted from the District investing more available funds in interest bearing investment accounts.

Total cash disbursements increased $3,646,923 compared to the prior year. This is partially due to payments made on the new middle school/high school construction project (facilities acquisition and construction disbursements). In addition, principal and interest disbursements were higher in fiscal year 2019 as the District began making payments on the bonds issued in the previous year. Other than debt service and facilities acquisition and construction, the largest component of disbursements is for the District's instructional programs. These disbursements amounted to $7,652,033 or 44.96 percent of total cash disbursements in fiscal year 2019.

The statement of activities – cash basis shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax receipts and unrestricted grants and entitlements.

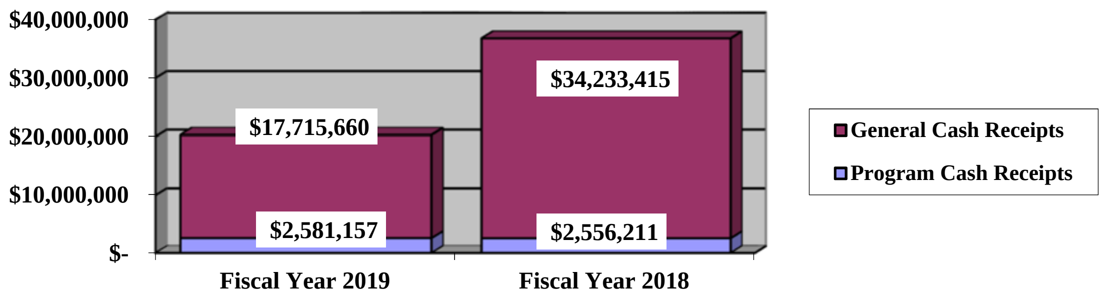
Governmental Activities

	Total Cost of Services 2019	Net Cost of Services 2019	Total Cost of Services 2018	Net Cost of Services 2018
Cash Disbursements				
Instruction:				
Regular	$ 5,299,319	$ 3,990,540	$ 5,248,756	$ 3,841,975
Special	1,373,968	839,835	1,225,144	661,253
Vocational	100,689	95,624	103,094	98,372
Other	878,057	878,057	766,188	766,188
Support services:				
Pupil	803,759	790,476	756,830	742,588
Instructional staff	450,068	442,021	416,728	406,143
Board of education	102,015	102,015	98,375	98,375
Administration	972,852	972,852	947,535	947,535
Fiscal	496,897	496,897	373,607	373,607
Operations and maintenance	909,011	864,114	863,212	863,212
Pupil transportation	789,055	777,448	745,939	737,589
Central	48,836	45,316	50,572	41,632
Food service operations	488,240	20,672	471,293	59,061
Other non-instructional services	14,106	14,106	25,444	25,444
Extracurricular activities	419,191	234,933	349,273	222,805
Facilities acquisition and construction	2,060,117	2,060,117	92,911	92,911
Principal retirement	805,000	805,000	405,000	405,000
Interest and fiscal charges	1,010,053	1,010,053	83,985	83,985
Bond issuance costs			350,424	350,424
Total	$ 17,021,233	$ 14,440,076	$ 13,374,310	$ 10,818,099

The dependence upon general receipts for governmental activities is apparent, with 84.84 percent and 80.89 percent of cash disbursements supported through taxes and other general receipts during fiscal years 2019 and 2018, respectively.

The following graph presents the District's governmental activities cash receipts for fiscal years 2019 and 2018.

Governmental Activities - General and Program Cash Receipts



The District's Funds

The District's governmental funds reported a combined fund balance of $35,660,314, compared to last year's combined fund balance of $32,384,730. The schedule below indicates the cash basis fund balance and the total change in the cash basis fund balance as of June 30, 2019 and 2018, for all major and nonmajor governmental funds.

	Cash Basis Fund Balance June 30, 2019	Cash Basis Fund Balance June 30, 2018	Increase/ (Decrease)
Major Funds:			
General Fund	$ 7,558,188	$ 9,499,596	$ (1,941,408)
Bond Retirement Fund	763,309	1,084,561	(321,252)
Building Fund	3,638,919	3,587,254	51,665
Classroom Facilities Fund	18,331,043	17,593,965	737,078
Capital Projects Fund	4,500,339		4,500,339
Nonmajor Governmental Funds	868,516	619,354	249,162
Total	$ 35,660,314	$ 32,384,730	$ 3,275,584

General Fund

The General Fund's cash balance decreased $1,941,408 due to transferring money to the Capital Projects Fund for various improvement projects, including a new auxiliary gym. The table that follows assists in illustrating the receipts of the General Fund.

	2019 Amount	2018 Amount	Increase (Decrease)	Percentage Change
Receipts				
Property taxes	$ 9,807,706	$ 7,583,504	$ 2,224,202	29.33 %
Payments in lieu of taxes	37,960	71,227	(33,267)	(46.71) %
Tuition and fees	1,302,238	1,379,141	(76,903)	(5.58) %
Earnings on investments	177,550	106,464	71,086	66.77 %
Intergovernmental	3,671,034	3,663,707	7,327	0.20 %
Other receipts	62,981	105,327	(42,346)	(40.20) %
Total	$ 15,059,469	$ 12,909,370	$ 2,150,099	16.66 %

As the preceding table shows, the most significant change in receipts, and the primary reason for the increase in total receipts, was property taxes. These were higher in fiscal year 2019 due to a significant increase in public utility personal property tax collections.

The table that follows assists in illustrating the disbursements of the General Fund.

	2019 Amount	2018 Amount	Increase (Decrease)	Percentage Change
Disbursements				
Instruction	$ 7,332,181	$ 6,978,551	$ 353,630	5.07 %
Support services	4,511,007	4,202,679	308,328	7.34 %
Operation of non-instructional services	14,106	25,444	(11,338)	(44.56) %
Extracurricular activities	260,802	228,947	31,855	13.91 %
Facilities acquisition and construction	434,923	92,911	342,012	368.11 %
Total	$ 12,553,019	$ 11,528,532	$ 1,024,487	8.89 %

The overall increase in General Fund disbursements is partially a result of increased costs of employee salaries, wages and benefits. In addition, facilities acquisition and construction disbursements were higher in fiscal year 2019 due to various projects undertaken during the year, such as payments for a new maintenance building and the purchase of Chromebooks, I-Pads and laptops throughout the District.

Bond Retirement Fund

The Bond Retirement Fund is used to account for the proceeds of a voted property tax levy that are restricted to expenditure for principal and interest. This fund had receipts of $1,521,303 and disbursements of $1,842,555 in fiscal year 2019. Both receipts and disbursements increased compared to the prior year property tax collections on the levy for the new bonds, and debt service payments on those bonds.

Building Fund

The Building Fund is used to account for the receipts and disbursements related to all special bond funds in the District. Disbursements in this fund represent the costs of acquiring capital facilities including real property. This fund had receipts and other financing sources (transfers in) of $315,943 and disbursements of $264,278 in fiscal year 2019. Both receipts and disbursements were lower than the prior year due to the issuance of bonds and payment of bond issuance costs in fiscal year 2018 related to the construction of the new middle school/high school.

Classroom Facilities Fund

The Classroom Facilities Fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities (new middle school/high school). This fund had receipts of $2,333,350 and disbursements and other financing uses of $1,596,272 in fiscal year 2019. The District began making payments to contractors out of this fund in fiscal year 2019 and also began receiving reimbursements for the State's share of project costs.

Capital Projects Fund

The Capital Projects Fund was created in fiscal year 2019 to account for various capital improvement projects related to the District's Locally Funded Initiatives (LFI) portion of the Ohio Facilities Construction Commission project. This fund had receipts and other financing sources (transfers in) of $4,500,339 and did not have any disbursements in fiscal year 2019.

General Fund Budgeting Highlights

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

For the General Fund, the original and final budget for receipts and other financing sources was $12,178,873. The actual budgetary basis receipts and other financing sources of $15,130,409 exceeded final budget estimates by $2,951,536 or 24.23 percent. This variance is primarily due to an increase in public utility personal property tax collections in fiscal year 2019.

Original budgetary basis disbursements and other financing uses of $17,014,064 were increased to $20,022,749 in the final budget, mostly to account for additional transfers to other funds. The actual budgetary basis disbursements and other financing uses of $17,935,007 were $2,087,742 less than the final budget estimates. This variance is primarily due to a conservative "worst case scenario" approach to budgeting for disbursements.

Capital Assets and Debt Administration

Capital Assets

The District does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as disbursements. The District had facilities acquisition and construction disbursements of $2,060,117 during fiscal year 2019.

Debt Administration

At June 30, 2019, the District had $23,995,000 in general obligation bonds outstanding. Of the total outstanding debt, $585,000 is due within one year and $23,410,000 is due in more than one year. There were no new additions in fiscal year 2019 and debt retirements totaled $805,000.

See Note 11 in the notes to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

The Northeastern Local School District encompasses approximately 117 square miles in the northeastern corner of Defiance County. It is a rural community with approximately 12,000 residents. In addition to the agricultural base, sixteen percent of the District's valuation consists of commercial and industrial property while thirty-two percent of the District's valuation consists of public utility general personal property.

Agricultural and residential property valuations increased by $695,890 from 2018 to 2019. Commercial and Industrial property values increased by $902,340. However, the largest increase was in public utility general property due to the Rover Pipeline. Public utility general property valuations increased by $34,324,340 resulting in increased revenue for the District. A compressor station for Rover Pipeline not yet included in the valuation should generate additional funding in fiscal year 2020.

During fiscal year 2019, the District was operating in the second year of the state biennium budget. Under this budget, the District was on the guarantee for state funding. Preliminary projections indicate that funding for fiscal year 2020 may be slightly lower than fiscal year 2019 funding. Open enrollment continues to benefit the District as more students from neighboring districts seek acceptance into the District.

The District is working with the Ohio Facilities Construction Commission on a new high school/middle school for students in grades five through twelve. Construction is underway with completion projected during the summer of 2020. The District plans to move into the new building at the start of the 2020-2021 school year. Support from the community on this project has been overwhelming.

Like all school districts in Ohio, the Northeastern Local School District must deal with challenges such as changes to state funding, the long-term effects of public utility deregulation, the elimination of personal property taxes on business inventory, and legislative decisions over which school administrators and boards of education have no control. Fortunately the District has experienced local growth and anticipates being able to continue to provide the educational opportunities to which its residents and students are accustomed.

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 questions about this report or need additional financial information contact Sara Buchhop, Treasurer, Northeastern Local School District, 05751 Domersville Road, Defiance, Ohio 43512-6703.

NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2019

	Governmental Activities
Assets	
Equity in pooled cash and cash equivalents	$ 6,891,993
Investments	28,768,321
Total assets	$ 35,660,314
Net position	
Restricted for:	
Capital projects	$ 22,403,921
Classroom facilities maintenance	239,618
Debt service	763,309
State funded programs	38,705
Student activities	103,745
Food service operations	52,489
Facilities maintenance	7,937
Unrestricted	12,050,590
Total net position	$ 35,660,314

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

		Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	**Charges for Services and Sales**	**Operating Grants and Contributions**	**Governmental Activities**
Governmental activities				
Current:				
Instruction:				
Regular	$ 5,299,319	$ 1,220,769	$ 88,010	$ (3,990,540)
Special	1,373,968	125,906	408,227	(839,835)
Vocational	100,689		5,065	(95,624)
Other	878,057			(878,057)
Support services:				
Pupil	803,759		13,283	(790,476)
Instructional staff	450,068		8,047	(442,021)
Board of education	102,015			(102,015)
Administration	972,852			(972,852)
Fiscal	496,897			(496,897)
Operations and maintenance	909,011		44,897	(864,114)
Pupil transportation	789,055		11,607	(777,448)
Central	48,836		3,520	(45,316)
Operation of non-instructional services:				
Food service operations	488,240	276,723	190,845	(20,672)
Other non-instructional services	14,106			(14,106)
Extracurricular activities	419,191	173,832	10,426	(234,933)
Facilities acquisition and construction	2,060,117			(2,060,117)
Debt service:				
Principal retirement	805,000			(805,000)
Interest and fiscal charges	1,010,053			(1,010,053)
Total governmental activities	$ 17,021,233	$ 1,797,230	$ 783,927	(14,440,076)

General receipts	
Property taxes levied for:	
General purposes	9,807,706
Debt service	1,464,235
Facilities maintenance	160,231
Payments in lieu of taxes	37,960
Grants and entitlements not restricted to specific programs	3,559,973
Grants for permanent improvement projects	1,922,119
Earnings on investments	703,867
Miscellaneous	59,569
Total general receipts	17,715,660
Change in net position	3,275,584
Net position at beginning of year	32,384,730
Net position at end of year	$ 35,660,314

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2019

	General Fund	Bond Retirement Fund	Building Fund	Classroom Facilities Fund
Assets				
Equity in pooled cash and cash equivalents	$ 1,670,733	$ 763,309	$ 263,906	$ 1,329,423
Investments	5,887,455		3,375,013	17,001,620
Total assets	$ 7,558,188	$ 763,309	$ 3,638,919	$ 18,331,043
Fund balances				
Restricted:				
Debt service		$ 763,309		
Capital improvements			$ 3,638,919	$ 18,331,043
Classroom facilities maintenance				
Food service operations				
Other purposes				
Student activities				
Facilities maintenance	$ 7,937			
Committed:				
Capital improvements				
Assigned:				
Student instruction	170,349			
Student and staff support	630,528			
Extracurricular activities	3,593			
Facilities acquisition and construction	84,100			
Subsequent year's appropriations	275,305			
Non-instructional services	34			
Unassigned	6,386,342			
Total fund balances	$ 7,558,188	$ 763,309	$ 3,638,919	$ 18,331,043

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
$ 1,996,106	$ 868,516	$ 6,891,993
2,504,233		28,768,321
$ 4,500,339	$ 868,516	$ 35,660,314
		$ 763,309
	$ 433,959	22,403,921
	239,618	239,618
	52,489	52,489
	38,705	38,705
	103,745	103,745
		7,937
$ 4,500,339		4,500,339
		170,349
		630,528
		3,593
		84,100
		275,305
		34
		6,386,342
$ 4,500,339	$ 868,516	$ 35,660,314

NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	Bond Retirement Fund	Building Fund	Classroom Facilities Fund	Capital Projects Fund
Receipts					
From local sources:					
Property taxes	$ 9,807,706	$ 1,464,235			
Payment in lieu of taxes	37,960				
Tuition	1,230,993				
Earnings on investments	177,550		$ 80,587	$ 411,231	$ 34,499
Charges for services					
Extracurricular	44,437				
Classroom materials and fees	71,245				
Rental income	150				
Contributions and donations	4,006				
Other local revenues	14,388	2,500			
Intergovernmental - state	3,588,101	54,568		1,922,119	
Intergovernmental - federal	82,933				
Total receipts	15,059,469	1,521,303	80,587	2,333,350	34,499
Disbursements					
Current:					
Instruction:					
Regular	5,226,252				
Special	1,127,183				
Vocational	100,689				
Other	878,057				
Support services:					
Pupil	790,476				
Instructional staff	442,021				
Board of education	102,015				
Administration	972,852				
Fiscal	466,453	27,502			
Operations and maintenance	902,819				
Pupil transportation	789,055				
Central	45,316				
Operation of non-instructional services:					
Food service operations					
Other non-instructional services	14,106				
Extracurricular activities	260,802				
Facilities acquisition and construction	434,923		264,278	1,360,916	
Debt service:					
Principal retirement		805,000			
Interest and fiscal charges		1,010,053			
Total disbursements	12,553,019	1,842,555	264,278	1,360,916	
Excess of receipts over (under) disbursements	2,506,450	(321,252)	(183,691)	972,434	34,499
Other financing sources (uses)					
Proceeds from sale of assets	31,560				
Transfers in			235,356		4,465,840
Transfers out	(4,504,469)			(235,356)	
Advances in	25,051				
Advances out					
Total other financing sources (uses)	(4,447,858)		235,356	(235,356)	4,465,840
Net change in fund balances	(1,941,408)	(321,252)	51,665	737,078	4,500,339
Fund balances at beginning of year	9,499,596	1,084,561	3,587,254	17,593,965	
Fund balances at end of year	$ 7,558,188	$ 763,309	$ 3,638,919	$ 18,331,043	$ 4,500,339

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Nonmajor Governmental Funds	Total Governmental Funds
$ 160,231	$ 11,432,172
	37,960
	1,230,993
	703,867
276,723	276,723
173,832	218,269
	71,245
	150
10,426	14,432
10,485	27,373
54,474	5,619,262
549,878	632,811
1,236,049	20,265,257
73,067	5,299,319
246,785	1,373,968
	100,689
	878,057
13,283	803,759
8,047	450,068
	102,015
	972,852
2,942	496,897
6,192	909,011
	789,055
3,520	48,836
488,240	488,240
	14,106
158,389	419,191
	2,060,117
	805,000
	1,010,053
1,000,465	17,021,233
235,584	3,244,024
	31,560
38,629	4,739,825
	(4,739,825)
	25,051
(25,051)	(25,051)
13,578	31,560
249,162	3,275,584
619,354	32,384,730
$ 868,516	$ 35,660,314

NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Budgeted Amounts			Variance with Final Budget
	Original	**Final**	**Actual**	**Positive (Negative)**
Receipts				
From local sources:				
Property taxes	$ 7,170,848	$ 7,170,848	$ 9,807,706	$ 2,636,858
Payment in lieu of taxes	30,000	30,000	37,960	7,960
Tuition	1,150,000	1,150,000	1,230,993	80,993
Earnings on investments	60,000	60,000	177,550	117,550
Classroom materials and fees	81,250	81,250	71,245	(10,005)
Rental income			150	150
Contributions and donations			4,006	4,006
Contract services	5,400	5,400		(5,400)
Other local revenues	1,525	1,525	14,344	12,819
Intergovernmental - state	3,579,850	3,579,850	3,588,101	8,251
Intergovernmental - federal	70,000	70,000	82,933	12,933
Total receipts	12,148,873	12,148,873	15,014,988	2,866,115
Disbursements				
Current:				
Instruction:				
Regular	5,698,017	5,701,017	5,394,300	306,717
Special	1,276,954	1,327,779	1,164,986	162,793
Vocational	127,274	132,274	101,569	30,705
Other	968,565	933,565	882,558	51,007
Support services:				
Pupil	858,987	890,987	802,304	88,683
Instructional staff	527,352	654,752	572,832	81,920
Board of education	189,386	189,486	125,989	63,497
Administration	1,008,909	1,011,409	963,033	48,376
Fiscal	654,149	654,149	471,981	182,168
Operations and maintenance	1,210,854	1,220,854	1,089,102	131,752
Pupil transportation	1,332,595	1,332,595	1,019,012	313,583
Central	543,500	543,500	45,316	498,184
Operation of non-instructional services	41,025	41,600	14,139	27,461
Extracurricular activities	270,957	286,982	264,395	22,587
Facilities acquisition and construction	129,700	569,700	519,022	50,678
Total disbursements	14,838,224	15,490,649	13,430,538	2,060,111
Excess of receipts over (under) disbursements	(2,689,351)	(3,341,776)	1,584,450	4,926,226
Other financing sources (uses)				
Refund of prior year's expenditures			58,810	58,810
Refund of prior year's receipts	(25,000)	(2,600)		2,600
Proceeds from sale of assets			31,560	31,560
Transfers out	(2,025,840)	(4,504,500)	(4,504,469)	31
Advances in	30,000	30,000	25,051	(4,949)
Advances out	(25,000)	(25,000)		25,000
Contingencies	(100,000)			
Total other financing sources (uses)	(2,145,840)	(4,502,100)	(4,389,048)	113,052
Net change in fund balance	(4,835,191)	(7,843,876)	(2,804,598)	5,039,278
Fund balance at beginning of year	8,948,586	8,948,586	8,948,586	
Prior year encumbrances appropriated	525,596	525,596	525,596	
Fund balance at end of year	$ 4,638,991	$ 1,630,306	$ 6,669,584	$ 5,039,278

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2019

	Private Purpose Trust	
	Scholarship	**Agency**
Assets		
Equity in pooled cash and cash equivalents	$ 11,047	$ 41,947
Liabilities		
Undistributed monies		$ 41,947
Net position		
Held in trust for scholarships	$ 11,047	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NORTHEASTERN LOCAL SCHOOL DISTRICT
DEFIANCE COUNTY, OHIO

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Private Purpose Trust
	Scholarship
Net position at beginning of year	$ 11,047
Net position at end of year	$ 11,047

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 – REPORTING ENTITY

Northeastern Local School District (the District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District is a local school district as defined by §3311.03 of the Ohio Revised Code. The District operates under an elected Board of Education (5 members) for staggered four year terms and is responsible for the provision of public education to residents of the District as authorized by state statute and federal guidelines.

The Board oversees the operations of the District's three instructional/support facilities which are staffed by 49 noncertified and 79 certified part-time and full-time teaching personnel. The District's average daily membership for the fiscal year ended June 30, 2019 was 1,082 students.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading.

A. Primary Government

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

B. Component Units

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

C. Other Organizations

The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship with the District:

JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Computer Association
The District is a participant in the Northwest Ohio Computer Association (NWOCA). NWOCA is an association of public school districts within the boundaries of Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. NWOCA is governed by the Northern Buckeye Education Council and its participating members.

The NWOCA Assembly consists of a superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the Council. NWOCA is governed by a Council chosen from two representatives from each of the six counties in which the member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Board. All payments made by the District for services received are made to the Northern Buckeye Education Council. Total disbursements made by the District to NWOCA during this fiscal year were $104,265. Financial information can be obtained from Tammy Butler, who serves as Treasurer, at 209 Nolan Parkway, Archbold, Ohio 43502.

Northern Buckeye Education Council
The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among various educational entities located in Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the four counties in which the member educational entities are located. The Board is elected from an Assembly consisting of a representative from each participating educational entity. Total disbursements made by the District to NBEC during this fiscal year were $250. To obtain financial information write to the Northern Buckeye Education Council, Tammy Butler, Treasurer, at 209 Nolan Parkway, Archbold, Ohio 43502.

Four County Career Center
The Four County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center-one each from the counties of Defiance, Fulton, Henry, and Williams and one additional representative; one representative from each of the city school districts; and one representative from each of the exempted village school districts. The Four County Career Center possesses its own budgeting and taxing authority. Total disbursements made by the District to the Four County Career Center during this fiscal year were $28,499. To obtain financial information write to the Four County Career Center, Connie Nicely, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

State Support Team Region 1
The State Support Team Region 1 (SSTR1) provides specialized core work related to building regional capacity for district, building, and community school implementation of the Ohio Improvement Process (OIP) at a high level. The service region of the SSTR1 includes Defiance, Fulton, Hancock, Henry, Lucas, Ottawa, Paulding, Putnam, Sandusky, Seneca, Van Wert, Williams, and Wood Counties. The fiscal agent for the SSTR1 is the Educational Service Center of Lake Erie West. The SSTR1 Executive Director and Single Point of Contact is Lynn McKahan. Contact information is available at www.sstr1.org.

Northwestern Ohio Educational Research Council, Inc.
The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training.

NOERC serves a twenty-five county area of Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Total disbursements made by the District to NOERC during this fiscal year were $350. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., P.O. Box 456, Ashland, Ohio 44805.

GROUP PURCHASING POOLS

Employee Insurance Benefits Program
The District participates in a group health insurance pool through the Northern Buckeye Health Plan (NBHP), Northwest Division of Optimal Health Initiative Consortium (OHI) Insurance Benefits Program (the Plan). NBHP is a joint self-insurance arrangement created pursuant to the authority vested in Ohio Revised Code §9.833. The Plan is a public entity shared risk pool consisting of educational entities throughout the State. The Plan is governed by OHI and its participating members. Total disbursements made by the District to NBHP/OHI for employee insurance benefits during this fiscal year were $1,259,585. Financial information can be obtained from Northern Buckeye Health Plan/OHI, Charlie LeBoeuf, Treasurer, at 201 East 5th Street, Suite 2100, Cincinnati, Ohio 45202.

Workers' Compensation Group Rating Plan
The District participates in the Ohio Health Initiatives (OHI) Workers' Compensation Group Rating Plan (WCGRP), an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Health Plan (NBHP) and the participating members. The group was formed to create a workers' compensation group rating plan which would allow employers to group together to achieve a potentially lower premium rate than they may otherwise be able to acquire as individual employers. NBHP has created a workers' compensation group rating and risk management program which will potentially reduce the workers' compensation premiums for the District.

NBHP has retained Sheakley Uniservice as the servicing agent to perform administrative, actuarial, cost control, claims, and safety consulting services and unemployment claims services for program participants. Total disbursements made by the District to WCGRP during this fiscal year were $430.

Schools of Ohio Risk Sharing Authority
The District participates in the Schools of Ohio Risk Sharing Authority (SORSA), which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code – Non-Profit Corporations and functioning under authority granted by Section 2744.081 of the Ohio Revised Code. SORSA's purpose is to provide a joint self-insurance pool to assist member school districts in preventing and reducing losses and injuries to property and persons which might result in claims being made against members of SORSA, their employees or officers. The District paid $65,937 for these services to SORSA during fiscal year 2019.

A nine-person Board of Directors manages the business and affairs of SORSA and is elected annually by the members of the pool. The Board of Directors consists of superintendents, treasurers, or business managers from the participating school districts. The District works with First Insurance Group, a local agent, as a liaison between SORSA and the District. SORSA employs an Executive Director, Program Manager, Risk Control Manager, and Claims Manager. Claims are handled in-house by Claims Manager, Greg Gilliam. Additional information can be obtained from SORSA at 555 Metro Place North, Suite 645, Dublin, Ohio, 43017 or by calling 866-767-7299.

The District's management believes these financial statements present all activities for which the District is financially accountable.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in the Basis of Accounting section of this note (Note 2.A), these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

A. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with GAAP, the District chooses to prepare its financial statements and notes on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than GAAP. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

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

Budgetary presentations report budgetary cash disbursements when a commitment is made (i.e. when an encumbrance is approved). The difference between disbursements reported in the fund and entity wide statements and disbursements reported in the budgetary statements are due to current year encumbrances being added to disbursements reported on the budgetary statements.

These statements include adequate disclosure of material matters, in accordance with the cash basis of accounting described in the preceding paragraph.

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are divided into three categories, governmental, proprietary, and fiduciary. The District does not have any proprietary funds.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed, primarily from taxes, intergovernmental receipts (e.g. grants) and other non-exchange transactions. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the District's major governmental funds:

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

Bond Retirement Fund – The Bond Retirement Fund accounts for and reports the proceeds of a voted property tax levy that are restricted to expenditure for principal and interest.

Building Fund – The Building Fund accounts for and reports the receipts and expenditures related to all special bond funds in the District. Expenditures in this fund represent the costs of acquiring capital facilities including real property.

Classroom Facilities Fund – The Classroom Facilities Fund accounts for and reports monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

Capital Projects Fund – The Capital Projects Fund accounts for and reports various capital improvement projects related to the District's Locally Funded Initiatives (LFI) portion of the Ohio Facilities Construction Commission project.

Other governmental funds of the District are used to account for specific revenue sources that are restricted, committed, or assigned to expenditures for specified purposes other than debt service or capital projects.

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 cash assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for donated monies restricted to provide college scholarship assistance to District graduates. Agency funds are custodial in nature and do not involve measurement of results of operations. The District's agency funds account for student-managed activities and Ohio High School Athletic Association (OHSAA) tournament activities.

C. Basis of Presentation

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

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

The statement of net position presents the cash balance of the governmental activities of the District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the District's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function.

Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the District within certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the District.

Fund Financial Statements – During the fiscal year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

D. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the alternate tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control selected by the Board is at the fund, function, object level within the General Fund and the fund, special cost center level for all other funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Budgetary allocations below these levels are made by the Treasurer.

1. *Alternative Tax Budget Information*

   Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The alternative tax budget information includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the board-adopted budget is filed with the County Budget Commission for rate determination.

2. *Estimated Resources*

   Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer.

   Estimated receipts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2019 and do not include the unencumbered fund balance as of July 1, 2018. However, those fund balances are available for appropriations.

3. Appropriations

By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund, function, object level within the General Fund and the fund, special cost center level for all other funds, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations at the legal level of control must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals. Any revisions that alter the total of any fund level appropriation must be approved by the Board of Education.

The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

4. Encumbrances

The District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. Expenditures plus encumbrances may not legally exceed appropriations. Encumbrances at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

5. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be re-appropriated.

E. Cash and Investments

To improve cash management, cash received by the District is pooled and invested. Monies for all funds are maintained in this pool with exception of debt proceeds utilized for construction of new District facilities. Individual fund integrity is maintained through District records. Interest in the pool is presented as “Equity in Pooled Cash and Cash Equivalents” on the basic financial statements.

Investments of the District’s cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

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

During fiscal year 2019, investments were limited to federal agency securities, negotiable certificates of deposit, commercial paper, U.S. Treasury Obligations, a money market mutual fund, and STAR Ohio. Investments are reported at cost, except for the money market mutual fund and STAR Ohio. The District’s money market mutual fund investment is recorded at the amount report reported by U.S. Bank at June 30, 2019.

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

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

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2019 amounted to $177,550, which included $1,922 assigned from other District funds.

F. Inventory and Prepaid Items

The District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

Acquisitions of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

H. Accumulated Leave

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

I. Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursements for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions of pension benefits and for other postemployment benefits (OPEB).

J. Long-Term Obligations

Bonds and other long-term obligations are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received and debt service disbursements for debt principal and interest payments when paid.

K. Fund Balance

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

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form, or legally 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 interfund loans.

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

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by the District's Board of Education. In the General Fund, assigned amounts represent intended uses established by policies of the District Board of Education or a District official delegated by that authority by resolution or by State Statute, which authorizes the Treasurer to assign fund balances for purchases on order provided such amounts have been lawfully appropriated.

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

The District applies restricted resources first when an expenditure is 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 disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

L. Net Position

Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for food service operations, student activities, and federal and state grants restricted to cash disbursement for specified purposes.

The District's policy is to first apply restricted resources first when a cash disbursement is incurred for purposes for which both restricted and unrestricted net position are available. There are no amounts restricted to enabling legislation.

M. Interfund Activity

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

N. Pensions/Other Postemployment Benefits (OPEB)

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

O. Fair Value

The District categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2019, the District has implemented GASB Statement No. 83, "*Certain Asset Retirement Obligations*" and GASB Statement No. 88, "*Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*".

GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the District.

GASB Statement No. 88 improves the information that is disclosed in notes to the basic financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The implementation of GASB Statement No. 88 did not have an effect on the financial statements of the District.

B. Compliance

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

NOTE 4 – DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

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

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

4. Bonds and other obligations of the State of Ohio, and with certain limitations, including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;

5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;

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

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

8. Certain banker’s acceptances (for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed forty percent of the interim monies available for investment at any one time if training requirements have been met.

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

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

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

A. Cash on Hand

At fiscal year end, the District had $100 in undeposited cash on hand which is included on the financial statements of the District as part of “Equity in Pooled Cash and Cash Equivalents”.

B. Deposits with Financial Institutions

At June 30, 2019, the carrying amount of all District deposits was $6,944,887 and the bank balance was $7,079,594. Of the bank balance, $5,272,243 was covered by the FDIC, $266,250 was covered by pledged collateral, and $1,541,101 was exposed to custodial credit risk as discussed below because those deposits were uninsured and could be uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

C. Investments

As of June 30, 2019, the District had the following investments and maturities:

			Investment Maturities		
Investment Type	Carrying Value	NAV/ Fair Value	12 months or less	13 to 24 months	Greater than 24 months
FHLB note	$ 279,972	$ 280,311			$ 280,311
FHLMC notes	2,242,648	2,244,963	$ 1,995,190	$ 249,773	
Negotiable CDs	3,332,604	3,321,139	805,064	1,770,390	745,685
Commercial paper	12,607,430	12,705,382	12,705,382		
U.S. Treasury obligations	5,567,426	5,600,783	5,600,783		
Money market mutual fund	455,253	455,253	455,253		
STAR Ohio	4,282,988	4,282,987	4,282,987		
Total	$ 28,768,321	$ 28,890,818	$ 25,844,659	$ 2,020,163	$ 1,025,996

The weighted average maturity of investments is 0.53 years.

Except for STAR Ohio, which is measured at net asset value (NAV), the District's investment in a money market mutual fund is valued using quoted market prices in active markets (Level 1 inputs) and the District's remaining investments are valued using quoted market prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly (Level 2 inputs).

Interest Rate Risk: Interest rate risk is the risk potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The District has no investment policy that addressed interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less, unless matched to a specific obligation or debt of the District and that an investment must be purchased with the expectation that it will be held until maturity. State statute limits investments in commercial paper to a maximum maturity of 270 days from the date of purchase.

Credit Risk: The District's investments in federal agency securities and U.S. Treasury obligations were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. STAR Ohio and the money market mutual fund both carry a rating of AAAm by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market mutual fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The District's investments in commercial paper were rated P-1 by Moody's Investor Services and A-1 or A-1+ by Standard & Poor's. The District's negotiable CD's were not rated but are fully covered by the FDIC. The District has no investment policy dealing with investment credit risk beyond the requirements in State statutes.

Custodial Credit Risk: For an investment, custodial credit risk 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 negotiable CDs are covered by FDIC. The federal agency securities and commercial paper are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities are transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation or transfer from the custodian by the treasurer, governing board, or qualified trustee."

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2019:

Investment Type	Carrying Value	% to Total
FHLB note	$ 279,972	0.97
FHLMC notes	2,242,648	7.80
Negotiable CDs	3,332,604	11.58
Commercial paper	12,607,430	43.82
U.S. Treasury obligations	5,567,426	19.35
Money market mutual fund	455,253	1.58
STAR Ohio	4,282,988	14.90
Total	$ 28,768,321	100.00

D. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2019:

Cash and Investments per Note	
Carrying amount of deposits	$ 6,944,887
Investments	28,768,321
Cash on hand	100
Total	$ 35,713,308

Cash and Investments per Statement of Net Position	
Governmental Activities	$ 35,660,314
Private Purpose Trust Fund	11,047
Agency Funds	41,947
Total	$ 35,713,308

NOTE 5 – INTERFUND TRANSACTIONS

A. Transfers

Interfund transfers for the fiscal year ended June 30, 2019, consisted of the following, as reported on the fund statements:

Transfers In	Transfers Out	Amount
Building Fund	Classroom Facilities Fund	$ 235,356
Capital Projects Fund	General Fund	4,465,840
Nonmajor Governmental Funds	General Fund	38,629
		$ 4,739,825

Transfers are used to move receipts from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund transfers between governmental funds are eliminated on the government-wide financial statements.

B. Interfund Balances

Interfund advances for the fiscal year ended June 30, 2019, consisted of the following, as reported on the fund statements:

Advances In	Advances Out	Amount
General Fund	Nonmajor Governmental Funds	$ 25,051

The purpose of the advances was to repay advances received in prior years. Advances between governmental funds are eliminated on the government-wide financial statements.

NOTE 6 – PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property located in the District. Real property tax revenues received in calendar year 2019 represent the collection of calendar year 2018 taxes. Real property taxes received in calendar year 2019 were levied after April 1, 2018, on the assessed values as of January 1, 2018, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

The District receives property taxes from Defiance County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2019, are available to finance fiscal year 2020 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2019 taxes were collected are:

	2018 Second Half Collections		2019 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/residential and other real estate	$ 214,087,400	75.80	$ 215,685,630	67.75
Public utility personal	68,331,950	24.20	102,656,290	32.25
Total	$ 282,419,350	100.00	$ 318,341,920	100.00
Tax rate per $1,000 of assessed valuation	$50.35		$48.15	

NOTE 7 – RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft or damage to and destruction of assets; errors and omissions, injuries to employees and natural disasters. During fiscal year 2019, the District contracted with the Schools of Ohio Risk Sharing Authority, Inc. for insurance coverage.

Coverages provided are as follows:

Property Insurance	$ 44,974,189
Equipment Breakdown	250,000
Automobile Liability	15,000,000
Wrongful Acts	15,000,000
Crime Coverage	1,000,000
General Liability:	
Per Occurrence	15,000,000
Total Per Year	17,000,000

Settled claims have not exceeded these coverages in any of the past three years, and there has been no significant reduction in insurance coverage from the prior fiscal year.

B. Employee Insurance Benefits Program

The District participates in the Northern Buckeye Health Plan – Northwest Division of Optimal Health Initiative (OHI) Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities (See Note 2.A). The District pays monthly premiums to the Program for the benefits offered to its employees, which includes health, dental, and vision insurance plans. Monthly premiums for life insurance are paid to American United Life Insurance. Northern Buckeye Health Plan is responsible for the management and operations of the program. The agreement for the program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, the Program would pay three months of run-off claims.

C. Workers' Compensation Group Program

The District participates in the Northern Buckeye Health Plan (NBHP) Ohio Health Initiatives Workers' Compensation Group Rating Plan (WCGRP), an insurance purchasing pool (see Note 2.A). The NBHP WCGRP is intended to reduce premiums for the participants. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the WCGRP. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. The WCGRP is governed by the Northern Buckeye Health Plan and the participating members of the WCGRP. The Executive Director of the NBHP coordinates the management and administration of the program.

NOTE 8 – DEFINED BENEFIT PENSION PLANS

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

Net Pension Liability/Net OPEB Liability

Pensions and OPEB are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions/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 net pension/OPEB liability (asset) represent the District's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability (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 this estimate 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/OPEB are financed; however, the District does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

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

The remainder of this note includes the required pension disclosures. See Note 9 for the required OPEB disclosures.

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

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

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

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 the years 2018, 2019 and 2020. Upon resumption of the COLA, it would be indexed to the percentage increase in the CPI-W, not to exceed 2.5 percent and with a floor of 0 percent.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2019, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was $204,484 for fiscal year 2019.

Plan Description – State Teachers Retirement System (STRS)

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

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

The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. In April 1, 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of-living increases are not affected by this change. 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.

The DC Plan allows members to place all their member contributions and 9.53 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

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

The District's contractually required contribution to STRS was $709,329 for fiscal year 2019.

Net Pension Liability

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 that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities.

Following is information related to the proportionate share:

	SERS	STRS	Total
Proportion of the net pension liability prior measurement date	0.04422960%	0.04181189%	
Proportion of the net pension liability current measurement date	0.04481290%	0.04249950%	
Change in proportionate share	0.00058330%	0.00068761%	
Proportionate share of the net pension liability	$ 2,566,518	$ 9,344,686	$ 11,911,204

Actuarial Assumptions – SERS

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

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

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

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

Inflation	3 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	2.5 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

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

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

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

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

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	$ 3,615,134	$ 2,566,518	$ 1,687,323

Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation are presented below:

Inflation	2.5 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Discount rate of return	7.45 percent
Payroll increases	3 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017

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

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

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

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

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

Discount Rate – The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net pension liability	$ 13,646,683	$ 9,344,686	$ 5,703,628

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2019, two members of the Board of Education have elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 9 – DEFINED BENEFIT OPEB PLANS

See Note 8 for a description of the net OPEB liability.

Plan Description – School Employees Retirement System (SERS)

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

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was $21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the District's surcharge obligation was $22,898.

The surcharge added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was $30,471 for fiscal year 2019.

Plan Description – State Teachers Retirement System (STRS)

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

Net OPEB Liability (Asset)

The net OPEB liability (asset) was measured as of June 30, 2018, and the total OPEB liability 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:

	SERS	STRS	Total
Proportion of the net OPEB liability prior measurement date	0.04457610%	0.04181189%	
Proportion of the net OPEB liability/asset current measurement date	0.04512890%	0.04249950%	
Change in proportionate share	0.00055280%	0.00068761%	
Proportionate share of the net OPEB liability (asset)	$ 1,251,998	$ (682,924)	$ 569,074

Actuarial Assumptions – SERS

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

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

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

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

Inflation	3 percent
Wage increases	3.50 percent to 18.20 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.62 percent
Prior measurement date	3.5 percent
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.7 percent
Prior measurement date	3.63 percent
Medical trend assumption:	
Medicare	5.375 to 4.75 percent
Pre-Medicare	7.25 to 4.75 percent

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

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

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

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

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

Discount Rate – The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 percent, 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 District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates – The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.70 %) 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 1 percentage point lower (6.25 % decreasing to 3.75 %) and higher (8.25 % decreasing to 5.75 %) than the current rate.

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
District's proportionate share of the net OPEB liability	$ 1,519,201	$ 1,251,998	$ 1,040,423

	1% Decrease (6.25 % decreasing to 3.75 %)	Current Trend Rate (7.25 % decreasing to 4.75 %)	1% Increase (8.25 % decreasing to 5.75 %)
District's proportionate share of the net OPEB liability	$ 1,010,132	$ 1,251,998	$ 1,572,271

Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation are presented below:

Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Payroll increases	3 percent
Discounted rate of return	7.45 percent
Health care cost trends	
Medical	
Pre-Medicare	6 percent initial, 4 percent ultimate
Medicare	5 percent initial, 4 percent ultimate
Prescription Drug	
Pre-Medicare	8 percent initial, 4 percent ultimate
Medicare	-5.23 percent initial, 4 percent ultimate

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

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

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

Since the Prior Measurement Date, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent 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.

Also, since the Prior Measurement Date, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.90 percent to 1.944 percent 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. However, in June of 2019, the STRS Board voted to extend the current Medicare Part B partial reimbursement one for year.

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

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

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

Discount Rate – The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2018. The blended discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was used to measure the total OPEB liability as of June 30, 2018. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017.

Sensitivity of the 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 percent, 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 percent) or one percentage point higher (8.45 percent) 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.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net OPEB asset	$ (585,329)	$ (682,924)	$ (764,947)

	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB asset	$ (760,316)	$ (682,924)	$ (604,325)

NOTE 10 – OTHER EMPLOYEE BENEFITS

Compensated Absences

Employees earn vacation at rates specified under State of Ohio law and based on credited service. Clerical, Technical, and Maintenance and Operation employees with one or more years of service are entitled to vacation ranging from 10 to 20 days. Employees with less than one year of service earn no vacation. Employees are permitted to carry over vacation leave if approved by the Superintendent.

All employees are entitled to a sick leave credit equal to one and one-quarter days for each month of service (earned on a pro rata basis for less than full-time employees). This sick leave will either be absorbed by time off due to illness or injury or, within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-fourth of the accumulated sick leave to a maximum of 61 days for certified employees and 60.75 days for non-certified employees.

NOTE 11 – LONG-TERM OBLIGATIONS

During fiscal year 2019, the following changes occurred in the District's long-term obligations:

	Balance Outstanding June 30, 2018	Additions	Reductions	Balance Outstanding June 30, 2019	Amounts Due in One Year
Governmental Activities:					
General obligation bonds:					
Series 2015 refunding	$ 3,650,000	$	$ (415,000)	$ 3,235,000	$ 420,000
Series 2018A	12,540,000		(200,000)	12,340,000	100,000
Series 2018B	8,610,000		(190,000)	8,420,000	65,000
Total Governmental Activities	$ 24,800,000	$	$ (805,000)	$ 23,995,000	$ 585,000

Series 2015 Refunding General Obligation Bonds
On June 23, 2015, the District issued general obligation bonds to advance refund the outstanding Series 2005 current interest bonds. These bonds are general obligations of the District, for which its full faith and credit is pledged. The source of payment is derived from proceeds of a 4.15 mil bonded debt tax levy.

The issuance proceeds of $4,046,950 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance). At June 30, 2019, $3,340,000 of defeased debt was outstanding.

This issue is comprised of current interest bonds, par value $4,105,000, bearing an annual interest rate of 2.18 percent. Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2026.

Series 2018A and 2018B General Obligation Bonds
On March 20, 2018, the District issued the Series 2018A and Series 2018B general obligation bonds to provide resources for school facilities construction, improvement and renovation, including a new high school, and locally funded initiatives under the Classroom Facilities Assistance Program of the Ohio Facilities Construction Commission. These bonds are general obligations of the District, for which its full faith and credit is pledged. The source of payment is derived from proceeds of a 4.15 mil bonded debt tax levy.

The issuances are comprised of current interest serial and term bonds, par value $21,150,000, bearing annual interest rates ranging from 2.0 percent to 5.0 percent. Interest payments on the bonds are due on May 1 and November 1 of each year. The final maturity date is November 1, 2054.

The bonds maturing after November 1, 2026 will be subject to redemption at the option of the District, either in whole or in part, in such order of maturity as the District shall determine, on any date on or after November 1, 2026, at a redemption price equal to 100 percent of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

The Series 2018A term bonds maturing November 1, 2031, November 1, 2035, November 1, 2038, November 1, 2043, November 1, 2048, and November 1, 2054 are subject to mandatory sinking fund redemption prior to stated maturity.

The Series 2018B term bonds maturing November 1, 2033, November 1, 2038, November 1, 2043, November 1, 2048, and November 1, 2054 are subject to mandatory sinking fund redemption prior to stated maturity.

The scheduled payments of principal and interest on debt outstanding at June 30, 2019 are as follows:

Fiscal Year	General Obligation Series 2015 Refunding Current Interest Bonds			General Obligation Series 2018 Current Interest Serial and Term Bonds		
Ending June 30	Principal	Interest	Total	Principal	Interest	Total
2020	$ 420,000	$ 65,945	$ 485,945	$ 165,000	$ 832,656	$ 997,656
2021	435,000	56,626	491,626	170,000	827,632	997,632
2022	445,000	47,034	492,034	185,000	821,381	1,006,381
2023	455,000	37,224	492,224	195,000	813,781	1,008,781
2024	465,000	27,196	492,196	210,000	805,681	1,015,681
2025 - 2029	1,015,000	23,925	1,038,925	1,415,000	3,852,555	5,267,555
2030 - 2034				2,075,000	3,422,030	5,497,030
2035 - 2039				2,785,000	2,853,730	5,638,730
2040 - 2044				3,410,000	2,229,205	5,639,205
2045 - 2049				4,115,000	1,514,996	5,629,996
2050 - 2054				4,935,000	682,593	5,617,593
2055				1,100,000	20,625	1,120,625
Total	$ 3,235,000	$ 257,950	$ 3,492,950	$ 20,760,000	$ 18,676,865	$ 39,436,865

Legal Debt Margin
The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9 percent of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1 percent of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2019, are a voted debt margin of $5,417,769 (including available funds of $763,309) and an unvoted debt margin of $318,327.

NOTE 12 – SET-ASIDES

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

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

	Capital Improvements
Set-aside balance June 30, 2018	
Current year set-aside requirement	$ 204,561
Current year qualifying disbursements	(736,973)
Current year offsets	(162,608)
Total	$ (695,020)
Set-aside balance June 30, 2019	$

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

NOTE 13 – BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balance on the cash basis, 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 Receipts, Disbursements and Changes in Fund Balance –- Budget and Actual – Budget Basis presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budgetary basis and the cash basis are as follows:

(a) Outstanding year end encumbrances are treated as cash disbursements (budgetary basis) as opposed to restricted, committed, or assigned fund balance (cash basis); and,

(b) Certain funds are included in the General Fund (cash basis) but have separate legally adopted budgets (budgetary basis).

The adjustments necessary to reconcile the budgetary basis statement to the cash basis statement are as follows:

Net Change in Fund Balance

	General Fund
Budget basis	$ (2,804,598)
Net adjustment for expenditure accruals	58,810
Net adjustment for other financing sources/uses	(58,810)
Funds budgeted elsewhere **	2,377
Adjustment for encumbrances	860,813
Cash basis	$ (1,941,408)

** As part of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting", certain funds that are legally budgeted in separate special revenue funds are considered part of the General Fund on a cash basis. This includes the uniform school supplies fund and the public school support fund.

NOTE 14 – OTHER COMMITMENTS

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

Fund	Year-End Encumbrances
General Fund	$ 864,632
Building Fund	3,476,859
Classroom Facilities Fund	24,563,205
Capital Projects Fund	3,435,563
Nonmajor Governmental Funds	54,129
Total	$ 32,394,388

NOTE 15 – CONTINGENCIES

A. Grants

Amounts grantor agencies pay to the District are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

B. Litigation

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

C. School Foundation

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, FTE statement No. 2 was made on December 13, 2019 and resulted in the District owing $14,927 to ODE. This amount is not recorded in the financial statements.

NOTE 16 – TAX ABATEMENTS

Henry County provide tax abatements through Community Reinvestment Areas (CRAs) and Enterprise Zones (EZones).

CRA – Under the authority of Ohio Revised Code (ORC) Section 3735.67, the CRA program is an economic development tool administered by municipal and county governments that provides real property tax exemptions for property owners who renovate existing or construct new buildings. CRA’s are areas of land in which property owners can receive tax incentives for investing in real property improvements. Under the CRA program, local governments petition to the Ohio Development Services Agency (ODSA) for confirmation of a geographical area in which investment in housing is desired. Once an area is confirmed by the ODSA, local governments may offer real property tax exemptions to taxpayers that invest in that area. Property owners in the CRA can receive temporary tax abatements for renovation of existing structures and new construction in these areas. Property owners apply to the local legislative authority for approval to renovate or construct in the CRA. Upon approval and certification of completion, the amount of the abatement is deducted from the individual or entity’s property tax bill.

EZone – Under the authority of ORC Sections 5709.62 and 5709.63, the Ezone program is an economic development tool administered by municipal and county governments that provides real and personal property tax exemptions to businesses making investments in Ohio. An Ezone is a designated area of land in which businesses can receive tax incentives in the form of tax exemptions on qualifying new investment. An Ezone's geographic area is identified by the local government involved in the creation of the zone. Once the zone is defined, the local legislative authority participating in the creation must petition the OSDA. The OSDA must then certify the area for it to become an active Enterprise Zone. The local legislative authority negotiates the terms of the Enterprise Zone Agreement (the “Agreement”) with the business, which may include tax sharing with the Board of Education. Legislation must then be passed to approve the Agreement. All Agreements must be finalized before the project begins and may contain provisions for the recoupment of taxes should the individual or entity fail to perform. The amount of the abatement is deducted from the business’s property tax bill.

The CRA and EZone agreements affect the property tax receipts collected and distributed to the District. During fiscal year 2019, the District’s property tax revenues were reduced as a result of these agreements as follows:

Tax Abatement Program	Taxes Abated
CRA	$ 137,825
EZone	64,013
Total	$ 201,838

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KEITH FABER

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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*

Northeastern Local School District
Defiance County
05751 Domersville Road
Defiance, Ohio 43512-6703

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 cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northeastern Local School District, Defiance 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 and have issued our report thereon dated February 3, 2020, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2019-001.

District's Response to Finding

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

Purpose of this Report

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

Keith Faber
Auditor of State

Columbus, Ohio

February 3, 2020

SCHEDULE OF FINDINGS
JUNE 30, 2019

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

FINDING NUMBER 2019-001

Noncompliance Citation

Ohio Rev. Code § 117.38(A) provides that each public office "shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office."

Ohio Admin. Code § 117-2-03(B), which further clarifies the requirements of Ohio Rev. Code § 117.38, requires the District to file annual financial reports which are prepared using generally accepted accounting principles (GAAP).

The District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumed material, cannot be determined at this time.

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

Officials' Response:

Management believes reporting on a basis of accounting other than generally accepted accounting principles (GAAP) is more efficient.

Northeastern Local School District

MICHAEL BOFF
Board Member

JOHN HIGBEA
Board Member

SHAUN MACK
Board Member

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Superintendent

ERIC WIEMKEN
Board Member

JENNI SCHWEITZER-AHMED
Board Member

SARA BUCHHOP
Treasurer

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2019

Finding Number	Finding Summary	Status	Additional Information
2018-001	This finding was first reported in 2008. Ohio Rev. Code § 117.38 and Ohio Admin. Code 117-2-03(B) for reporting on a basis other than generally accepted accounting principles.	Not corrected and reissued as Finding 2019-001 in this report.	This finding reoccurred since management believes reporting on a basis other than generally accepted accounting principles (GAAP) is more cost efficient.

OHIO AUDITOR OF STATE
KEITH FABER

NORTHEASTERN LOCAL SCHOOL DISTRICT

DEFIANCE 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
FEBRUARY 18, 2020

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