



OHIO AUDITOR OF STATE  
**KEITH FABER**





**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY  
JUNE 30, 2020**

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## INDEPENDENT AUDITOR'S REPORT

Otsego Local School District  
Wood County  
18505 Tontogany Creek Road, Suite 1  
Bowling Green, Ohio 43402

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 Otsego Local School District, Wood County, Ohio (the District), as of and for the year ended June 30, 2020, 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.

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Efficient • Effective • Transparent

**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 Otsego Local School District, Wood County, Ohio, as of June 30, 2020, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

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

**Emphasis of Matters**

As discussed in Note 3 to the financial statements, during 2020, the District adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. We did not modify our opinion regarding this matter.

Additionally, as discussed in Note 25 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the District. We did not modify our opinion regarding this matter.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2021, 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

March 19, 2021

Otsego Local School District  
Statement of Net Position - Cash Basis  
June 30, 2020

	<u>Governmental Activities</u>
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$5,247,163</u></u>
<u>Net Position:</u>	
Restricted for:	
Capital Projects	16,332
Debt Service	648,470
Other Purposes	502,861
Unrestricted	<u>4,079,500</u>
Total Net Position	<u><u>\$5,247,163</u></u>

See Accompanying Notes to Basic Financial Statements

Otsego Local School District  
Statement of Activities - Cash Basis  
For the Fiscal Year Ended June 30, 2020

	Program Cash Receipts			Net (Disbursement) Receipt and Change in Net Position
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$7,849,143	\$1,026,998	\$43,270	(\$6,778,875)
Special	3,030,707	38,615	842,193	(2,149,899)
Vocational	6,842	0	8,742	1,900
Support Services:				
Pupils	704,807	0	159,221	(545,586)
Instructional Staff	511,987	0	0	(511,987)
Board of Education	23,349	0	0	(23,349)
Administration	1,349,652	0	0	(1,349,652)
Fiscal	410,421	0	0	(410,421)
Business	56,655	0	0	(56,655)
Operation and Maintenance of Plant	1,468,627	0	0	(1,468,627)
Pupil Transportation	914,018	0	0	(914,018)
Central	174,106	0	0	(174,106)
Non-Instructional Services	504,672	301,747	193,646	(9,279)
Extracurricular Activities	668,861	289,042	4,585	(375,234)
Capital Outlay	18,000	0	0	(18,000)
Debt Service:				
Principal Retirement	1,049,929	0	0	(1,049,929)
Interest and Fiscal Charges	462,210	0	0	(462,210)
Total Governmental Activities	<u>\$19,203,986</u>	<u>\$1,656,402</u>	<u>\$1,251,657</u>	<u>(16,295,927)</u>

General Receipts:

Property Taxes Levied for General Purposes	5,223,083
Property Taxes Levied for Debt Service	1,070,591
Property Taxes Levied for Permanent Improvements	120,289
Income Taxes Levied for General Purposes	3,268,690
Grants and Entitlements not Restricted to Specific Programs	5,772,362
Interest	95,984
Gifts and Donations	19,643
Miscellaneous	269,110
Total General Receipts	<u>15,839,752</u>
Change in Net Position	(456,175)
Net Position Beginning of Year - Restated (Note 3)	<u>5,703,338</u>
Net Position End of Year	<u>\$5,247,163</u>

See Accompanying Notes to Basic Financial Statements



Otsego Local School District  
Statement of Cash Basis Assets and Fund Balances  
Governmental Funds  
June 30, 2020

	General	Bond Retirement	Other Governmental	Total Governmental Funds
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$4,286,349	\$648,470	\$312,344	\$5,247,163
<u>Fund Balances:</u>				
Restricted	\$135,470	\$648,470	\$383,723	\$1,167,663
Committed	0	0	88,160	88,160
Assigned	129,320	0	0	129,320
Unassigned (Deficit)	4,021,559	0	(159,539)	3,862,020
 Total Fund Balances	 \$4,286,349	 \$648,470	 \$312,344	 \$5,247,163

See Accompanying Notes to Basic Financial Statements

Otsego Local School District  
Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Basis Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2020

	General	Bond Retirement	Other Governmental	Total Governmental Funds
<u>Receipts:</u>				
Property Taxes	\$5,223,083	\$1,070,591	\$120,289	\$6,413,963
Income Taxes	3,268,690	0	0	3,268,690
Intergovernmental	6,072,763	145,775	764,004	6,982,542
Interest	95,984	0	0	95,984
Tuition and Fees	1,146,670	0	1,200	1,147,870
Extracurricular Activities	18,122	0	269,720	287,842
Charges for Services	0	0	220,690	220,690
Gifts and Donations	19,643	0	41,477	61,120
Miscellaneous	241,903	0	27,207	269,110
<b>Total Receipts</b>	<b>16,086,858</b>	<b>1,216,366</b>	<b>1,444,587</b>	<b>18,747,811</b>
<u>Disbursements:</u>				
Current:				
Instruction:				
Regular	7,736,496	0	112,647	7,849,143
Special	2,647,274	0	383,433	3,030,707
Vocational	6,842	0	0	6,842
Support Services:				
Pupils	644,806	0	60,001	704,807
Instructional Staff	500,050	0	11,937	511,987
Board of Education	23,349	0	0	23,349
Administration	1,266,956	0	82,696	1,349,652
Fiscal	396,270	11,239	2,912	410,421
Business	56,655	0	0	56,655
Operation and Maintenance of Plant	1,263,557	0	205,070	1,468,627
Pupil Transportation	914,018	0	0	914,018
Central	169,237	0	4,869	174,106
Non-Instructional Services	8,401	0	496,271	504,672
Extracurricular Activities	392,887	0	275,974	668,861
Capital Outlay	0	0	18,000	18,000
Debt Service:				
Principal Retirement	354,929	695,000	0	1,049,929
Interest and Fiscal Charges	46,410	415,800	0	462,210
<b>Total Disbursements</b>	<b>16,428,137</b>	<b>1,122,039</b>	<b>1,653,810</b>	<b>19,203,986</b>
Excess of Receipts Over (Under) Disbursements	(341,279)	94,327	(209,223)	(456,175)
<u>Other Financing Sources (Uses):</u>				
Transfers In	0	0	243,997	243,997
Transfers Out	(135,000)	0	(108,997)	(243,997)
<b>Total Other Financing Sources (Uses)</b>	<b>(135,000)</b>	<b>0</b>	<b>135,000</b>	<b>0</b>
<b>Changes in Fund Balances</b>	<b>(476,279)</b>	<b>94,327</b>	<b>(74,223)</b>	<b>(456,175)</b>
Fund Balances Beginning of Year - Restated (Note 3)	4,762,628	554,143	386,567	5,703,338
<b>Fund Balances End of Year</b>	<b>\$4,286,349</b>	<b>\$648,470</b>	<b>\$312,344</b>	<b>\$5,247,163</b>

See Accompanying Notes to Basic Financial Statements

Otsego Local School District  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2020

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$4,828,439	\$4,828,439	\$5,223,083	\$394,644
Income Taxes	2,965,675	2,965,675	3,268,690	303,015
Intergovernmental	6,454,751	6,454,751	6,072,763	(381,988)
Interest	91,467	91,467	95,984	4,517
Tuition and Fees	1,060,247	1,060,247	1,146,670	86,423
Extracurricular Activities	22,359	22,359	18,122	(4,237)
Gifts and Donations	0	0	19,643	19,643
Miscellaneous	172,351	172,554	128,383	(44,171)
Total Revenues	<u>15,595,289</u>	<u>15,595,492</u>	<u>15,973,338</u>	<u>377,846</u>
<u>Expenditures:</u>				
<u>Current:</u>				
<u>Instruction:</u>				
Regular	8,215,819	7,754,931	7,753,630	1,301
Special	2,602,481	2,659,830	2,647,793	12,037
Vocational	6,602	6,842	6,842	0
<u>Support Services:</u>				
Pupils	636,305	644,806	644,806	0
Instructional Staff	426,783	503,981	503,981	0
Board of Education	19,512	23,349	23,349	0
Administration	1,314,647	1,274,422	1,271,701	2,721
Fiscal	409,005	398,262	396,301	1,961
Business	34,470	56,655	56,655	0
Operation and Maintenance of Plant	1,340,995	1,279,182	1,274,052	5,130
Pupil Transportation	888,699	931,778	929,464	2,314
Central	183,191	176,390	169,237	7,153
Non-Instructional Services	300	10,401	8,401	2,000
Extracurricular Activities	311,871	402,121	394,120	8,001
<u>Debt Service:</u>				
Principal Retirement	349,929	354,929	354,929	0
Interest and Fiscal Charges	51,675	46,410	46,410	0
Total Expenditures	<u>16,792,284</u>	<u>16,524,289</u>	<u>16,481,671</u>	<u>42,618</u>
Excess of Revenues Under Expenditures	<u>(1,196,995)</u>	<u>(928,797)</u>	<u>(508,333)</u>	<u>420,464</u>
<u>Other Financing Sources (Uses):</u>				
Advances In	16,000	16,000	0	(16,000)
Refund of Prior Year Expenditures	85,107	85,107	113,520	28,413
Transfers Out	(102,000)	(135,000)	(135,000)	0
Total Other Financing Sources (Uses)	<u>(893)</u>	<u>(33,893)</u>	<u>(21,480)</u>	<u>12,413</u>
Changes in Fund Balance	(1,197,888)	(962,690)	(529,813)	432,877
Fund Balance Beginning of Year	4,731,248	4,731,248	4,731,248	0
Prior Year Encumbrances Appropriated	31,380	31,380	31,380	0
Fund Balance End of Year	<u>\$3,564,740</u>	<u>\$3,799,938</u>	<u>\$4,232,815</u>	<u>\$432,877</u>

See Accompanying Notes to the Basic Financial Statements

Otsego Local School District  
Statement of Cash Basis Fiduciary Net Position  
Fiduciary Funds  
June 30, 2020

	Private Purpose Trust	Custodial
<u>Assets:</u>		
Equity in Pooled Cash and Cash Equivalents	\$57,412	\$3,511
<u>Net Position:</u>		
Held in Trust for Scholarships	29,432	
Endowment	27,980	
Restricted for Individuals, Organizations and Other Governments	0	\$3,511
Total Net Position	\$57,412	

See Accompanying Notes to Basic Financial Statements

Otsego Local School District  
Statement of Cash Basis Change in Fiduciary Net Position  
Fiduciary Funds  
For the Fiscal Year Ended June 30, 2020

	Private Purpose Trust	Custodial
<u>Additions:</u>		
Donations	\$3,611	\$0
Charges Received for OHSAA	0	1,024
	3,611	1,024
Total Additions	3,611	1,024
<u>Deductions:</u>		
Non-Instructional Services	2,940	0
Distributions on Behalf of OHSAA	0	75
	2,940	75
Total Deductions	2,940	75
Change in Net Position	671	949
Net Position Beginning of Year - Restated (Note 3)	56,741	2,562
Net Position End of Year	\$57,412	\$3,511

See Accompanying Notes to Basic Financial Statements

Otsego Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

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

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

The School District serves an area of approximately one hundred forty-four square miles. It is located in portions of Wood, Lucas, and Henry Counties, including the villages of Tontogany, Haskins, Grand Rapids, and Weston, and portions of surrounding townships. It is staffed by seventy six classified employees, one hundred three certified teaching personnel, and nine administrative employees who provide services to 1,704 students and other community members. The School District currently operates one elementary school, one middle school, and one comprehensive high school.

**Reporting Entity**

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

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

The School District participates in three jointly governed organizations, a related organization, and two insurance pools. These organizations are the Northwest Ohio Computer Association, Northern Buckeye Education Council, Penta Career Center, Weston Public Library, Wood County Schools Benefit Plan Association, and the Optimal Health Initiatives Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 20, 21, and 22 to the basic financial statements.

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

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

**Note 2 - Summary of Significant Accounting Policies** (continued)

**A. Basis of Presentation**

The School 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 School 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 School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the School District is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the School District's general receipts.

**Fund Financial Statements**

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

**B. Fund Accounting**

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

**Governmental Funds**

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The School District's two major funds are the General Fund and the Bond Retirement debt service fund.

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

**Note 2 - Summary of Significant Accounting Policies** (continued)

Bond Retirement Fund - The Bond Retirement Fund is used to account for property taxes restricted for the payment of principal, interest, and related costs on general obligation debt.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension (and other employee benefit) trust funds, investment trust funds, private purpose trust funds, and custodial funds. Trust funds are distinguished from custodial funds by the existence of a trust agreement or equivalent arrangement that have certain characteristics. Custodial funds are used to report activities that are not required to be reported in a trust fund.

The School District's private purpose trust fund accounts for programs that provide college scholarships and loans to students after graduation. The School District's custodial fund is used to account for resources held on behalf of the Ohio High School Athletic Association.

**C. Basis of Accounting**

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

As a result of the use of the 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 the financial statements.

**D. Budgetary Process**

All funds, except custodial funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of control selected by the Board is at the fund level for all funds. Budgetary allocations at the function and object level for all funds are made by the School District Treasurer.



Otsego Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

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**Note 2 - Summary of Significant Accounting Policies** (continued)

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

The appropriations resolution is subject to amendment throughout the fiscal year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations 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.

**E. Cash and Investments**

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

During fiscal year 2020, investments consisted of negotiable certificates of deposit, mutual funds, and STAR Ohio. Investments are reported at cost, fair value, or net asset value per share. STAR Ohio is an investment pool, managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company but has adopted Governmental Accounting Standards Board (GASB) Statement No. 79, “Certain External Investment Pools and Pool Participants”. The School District measures the 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 a NAV per share that approximates fair value.

For fiscal year 2020, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, twenty-four hours advance notice is appreciated for deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million requiring the excess amount to be transacted the following business day(s) but only to the \$100 million limit. All accounts of the participant will be combined for this purpose.

The School District allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2020 was \$95,984, which includes \$15,087 assigned from other School District funds.

Investments of the School District’s cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as 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, purchases of investments are not recorded as disbursements and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

**Note 2 - Summary of Significant Accounting Policies** (continued)

**F. Capital Assets**

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

**G. Compensated Absences**

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 used by the School District.

**H. Long-Term Obligations**

Cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when disbursements are made.

**I. Net Position**

Net position is reported as restricted when there are limitations imposed on its use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources restricted for food service operations, music and athletic programs, and federal and state grants. The School District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**J. Fund Balance**

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

Nonspendable - The nonspendable 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" includes items that are not expected to be converted to cash.

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

Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the 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.

**Note 2 - Summary of Significant Accounting Policies** (continued)

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

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

The School District first applies restricted resources 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 expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

**K. Pension/Postemployment Benefits**

For purposes of measuring the net pension/OPEB liability (asset), 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 retirement systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The retirement systems report investments at fair value.

**L. Interfund Activity**

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

Internal allocation of overhead expenses from one function to another or within the same function are not eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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 disbursements to the funds that initially paid for them are not presented on the basic financial statements. Interfund transfers between governmental funds are eliminated on the statement of activities.

**Note 3 - Change in Accounting Principles and Restatement of Net Position**

For fiscal year 2020, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 84, "Fiduciary Activities", Statement No. 90, "Majority Equity Interests-An Amendment of GASB Statements No. 14 and No. 61", and related guidance from GASB Implementation Guide 2019-2, "Fiduciary Activities".

Otsego Local School District  
Notes to the Basic Financial Statements  
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**Note 3 - Change in Accounting Principles and Restatement of Net Position** (continued)

For fiscal year 2020, the School District also implemented GASB Implementation Guide No. 2018-1. These changes were incorporated in the School District's fiscal year 2020 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 84 established specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities. Due to the implementation of GASB Statement No. 84, the School District will no longer be reporting agency funds. The School District reviewed its agency funds and certain funds will be reported in the new fiduciary fund classification of custodial funds while other funds have been reclassified as governmental funds. These reclassifications resulted in a restatement of the School District's financial statements.

GASB Statement No. 90 defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if the government's holding of the equity interest meets the definition of an investment. These changes were incorporated in the School District's fiscal year 2020 financial statements; however, there was no effect on beginning net position/fund balance.

The restatement due to the implementation of GASB Statement No. 84 had the following effect on fund balance as previously reported at June 30, 2019.

	General	Bond Retirement	Other Governmental	Total
Fund Balance, June 30, 2019	\$4,762,628	\$554,143	\$287,765	\$5,604,536
GASB Statement No. 84	0	0	98,802	98,802
Restated Fund Balance, June 30, 2019	\$4,762,628	\$554,143	\$386,567	\$5,703,338

The restatement had the following effect on net position as previously reported.

Net Position June 30, 2019	\$5,604,536
GASB Statement No. 84	98,802
Restated Net Position June 30, 2019	\$5,703,338

Due to the implementation of GASB Statement No. 84, the new classification of custodial funds is reporting a beginning net position of \$2,562. Also related to the implementation of GASB Statement No. 84, the School District will no longer be reporting agency funds; at June 30, 2019, agency funds reported assets and liabilities of \$101,364.

**Note 4 - Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as committed or assigned fund balance (cash basis). The General Fund encumbrances outstanding at fiscal year end (budgetary basis) were \$53,534.

**Note 5 - Accountability and Compliance**

**A. Accountability**

At June 30, 2020, the IDEA-B, Title-I, and Early Childhood Special Education special revenue funds as well as the Permanent Improvement capital projects fund had deficit fund balances, in the amount of \$51,022, \$92,325, \$9, and \$16,183, respectively. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed.

**B. Compliance**

Ohio Administrative Code Section 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a 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, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. This School District can be fined and various other administrative remedies may be taken against the School District.

**Note 6 - Deposits and Investments**

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

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

Inactive deposits are public deposits 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.

Otsego Local School District  
Notes to the Basic Financial Statements  
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**Note 6 - Deposits and Investments** (continued)

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

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

1. United States Treasury bills, bonds, notes, 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 obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio and, with certain limitations 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 division (1) or (2) and repurchase agreements secured by such obligations provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' 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 40 percent of the interim monies available for investment at any one time (if training requirements have been met).

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

Otsego Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

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**Note 6 - Deposits and Investments** (continued)

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

Investments

The School District reports their investments at cost, fair value, or net asset value per share. The fair value of these investments is not materially different from cost. As of June 30, 2020, the School District had the following investments:

<u>Measurement/Investment</u>	<u>Measurement Amount</u>	<u>Maturity</u>
Cost		
Negotiable Certificate of Deposit	\$235,000	07/13/20
Negotiable Certificate of Deposit	225,000	10/20/20
Negotiable Certificate of Deposit	235,000	07/19/21
Negotiable Certificate of Deposit	215,000	10/25/21
Negotiable Certificate of Deposit	245,000	11/29/12
Negotiable Certificate of Deposit	245,000	09/19/22
Negotiable Certificate of Deposit	490,000	11/21/22
Negotiable Certificate of Deposit	245,000	02/28/23
Negotiable Certificate of Deposit	245,000	08/21/23
Fair Value		
Mutual Funds	35,487	32 days
Net Asset Value Per Share		
STAR Ohio	364,206	41.5 Days
	<u>\$2,779,693</u>	

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the School District.

The negotiable certificates of deposit are covered by FDIC and/or SIPC insurance. The mutual funds carry a rating of Aaa by Moodys. STAR Ohio carries a rating of AAA by Standard and Poor's. The School District has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that mutual funds must be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. STAR Ohio must maintain the highest rating provided by at least one nationally recognized standard rating service.

The School District places no limit on the amount it may invest in any one issuer. The following table indicates the percentage of investments to the School District's total portfolio:

	<u>Cost Value</u>	<u>Percentage of Portfolio</u>
Negotiable Certificates of Deposit	\$2,380,000	85.62%

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Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

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**Note 7 - Property Taxes**

Property taxes are levied and assessed on a calendar year basis, while the School District's fiscal year runs from July through June. First-half tax distributions are received by the School 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 and public utility property located in the School District. Real property tax revenues received in calendar year 2020 represent the collection of calendar year 2019 taxes. Real property taxes received in calendar year 2020 were levied after April 1, 2019, on the assessed values as of January 1, 2019, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2020 represent the collection of calendar year 2019 taxes. Public utility real and tangible personal property taxes received in calendar year 2020 became a lien on December 31, 2018, were levied after April 1, 2019, 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 School District receives property taxes from Wood, Lucas, and Henry Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2020, 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 fiscal year 2020 taxes were collected are:

	2019 Second- Half Collections		2020 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$238,137,510	90.72%	\$240,298,910	82.76%
Industrial/Commercial	13,513,240	5.15	13,682,600	4.71
Public Utility Real	162,800	.06	185,920	.06
Public Utility Personal	10,672,270	4.07	36,212,320	12.47
Total Assessed Value	<u>\$262,485,820</u>	<u>100.00%</u>	<u>\$290,379,750</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$46.35		\$46.00	

**Note 8 - Income Taxes**

The School District levies a voted tax of 1 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 2003, and is for a continuing period. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.



Otsego Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

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**Note 9 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2020, was as follows:

	Balance at 6/30/19	Additions	Reductions	Balance at 6/30/20
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$119,295	\$0	\$0	\$119,295
Depreciable Capital Assets				
Land Improvements	524,163	0	0	524,163
Building and Building Improvements	43,395,920	18,000	0	43,413,920
Furniture, Fixtures, and Equipment	1,237,675	37,492	0	1,275,167
Vehicles	1,646,901	38,260	0	1,685,161
Total Depreciable Capital Assets	46,804,659	93,752	0	46,898,411
Governmental Activities Capital Assets	<u>\$46,923,954</u>	<u>\$93,752</u>	<u>\$0</u>	<u>\$47,017,706</u>

**Note 10 - Risk Management**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2020, the School District contracted for the following insurance coverage:

Coverage provided by the Netherlands Insurance Company is as follows:

General School District Liability	
Per Occurrence	\$1,000,000
Aggregate	2,000,000
Automobile Liability	1,000,000
Building and Contents	62,304,206

Coverage provided by the Indiana Insurance Company is as follows:

Umbrella Liability	5,000,000
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Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in insurance coverage from the prior fiscal year.

The School District participates in the Wood County Schools Benefit Plan Association (Association), a public entity shared risk pool consisting of six local school districts, two exempted village school districts, a city school district, a joint vocational school, and an Educational Service Center. The School District pays monthly premiums to the Association for employee medical and dental benefits. The Association is responsible for the management and operations of the program and the payment of all claims. Upon withdrawal from the Association, a participant is responsible for the payment of all liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

Otsego Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

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**Note 10 - Risk Management** (continued)

For fiscal year 2020, the School District participated in The Optimal Health Initiatives Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. The firm Sheakley provides administrative, cost control, and actuarial services to the Plan.

**Note 11 - Contractual Commitments**

At fiscal year end, the amount of significant encumbrances expected to be honored upon performance by the vendor in fiscal year 2021 are as follows:

General Fund	\$53,534
Other Governmental Funds	23,021
Total	<u>\$76,555</u>

**Note 12 - Defined Benefit Pension Plans**

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

**Net Pension Liability/Net OPEB Liability (Asset)**

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) represents the School District's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability (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.

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

Otsego Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

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**Note 12 - Defined Benefit Pension Plans** (continued)

GASB Statements No. 68 and No. 75 assume the liability is solely the obligation of the employer because (1) they benefit from employee services and (2) State statute requires all funding to come from the employers. All pension contributions to date have come solely from the employer (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contribution to provide for OPEB benefits. In addition, health care plan enrollees pay a portion of the health care cost in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within thirty years. If the amortization period exceeds thirty 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 health care to eligible benefit recipients.

The remainder of this note includes the required pension disclosures. See Note 13 for the required OPEB disclosures.

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

Plan Description - School District nonteaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, 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. The report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under employers/audit resources.

Age and service requirements for retirement are as follows.

	Eligible to retire on or before August 1, 2017 *	Eligible to retire on or after August 1, 2017
Full Benefits	Age 65 with 5 years of service credit; Any age with 30 years of service credit	Age 67 with 10 years of service credit; Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit; Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; 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 the 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 thirty years. Final average salary is the average of the highest three years of salary.

An individual whose benefit effective date is before April 1, 2018, is eligible for a cost of living adjustment (COLA) on the first anniversary date of the benefit. Beginning April 1, 2018, new benefit recipients must wait until the fourth anniversary of their benefit for COLA eligibility. The COLA is added each year to the base benefit amount on the anniversary date of the benefit. A three year COLA suspension is in effect for all benefit recipients for 2018, 2019, and 2020. Upon resumption of the COLA, it will be indexed to the percentage increase in the CPI-W not to exceed 2.5 percent and with a floor of 0 percent.

**Note 12 - Defined Benefit Pension Plans** (continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2020, the allocation to pension, death benefits, and Medicare B was 14 percent. For fiscal year 2020, the Retirement Board did not allocate any employer contributions to the Health Care Fund.

The School District's contractually required contribution to SERS was \$297,628 for fiscal year 2020.

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

Plan Description - School District licensed teachers and other certified 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 publicly available stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS' fiduciary net position. The report can be obtained by writing to STRS, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org).

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

The DBP 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 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. 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 sixty-five or thirty-five years of service credit and at least age sixty. Eligibility changes for DBP members who retire with actuarially reduced benefits will be phased in until August 1, 2023, when retirement eligibility will be five years of qualifying service credit and age sixty or thirty years of service credit at any age.

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

Otsego Local School District  
Notes to the Basic Financial Statements  
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**Note 12 - Defined Benefit Pension Plans** (continued)

The CP offers features of both the DBP and the DCP. In the CP, 12 percent of the 14 percent member rate is deposited into the member's DCP account and the remaining 2 percent is applied to the DBP. Member contributions to the DCP are allocated among investment choices by the member and contributions to the DBP from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DBP. The defined benefit portion of the CP payment is payable to a member on or after age sixty 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 at age fifty and after termination of employment.

New members who choose the DCP or CP 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 CP 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 Statement No. 68 reporting purposes.

A DBP or CP member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. New members must have at least ten years of qualifying service credit to apply for disability benefits. Members in the DCP who become disabled are entitled only to their account balance. Eligible survivors of members who die before service retirement may qualify for monthly benefits. If a member of the DCP 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, 2020, the employer and employee rate of 14 percent was equal to the statutory maximum rates. For fiscal year 2020, the full employer contribution was allocated to pension.

The School District's contractually required contribution to STRS was \$1,059,267 for fiscal year 2020.

**Net Pension Liability**

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share.

	SERS	STRS	Total
Proportion of the Net Pension Liability			
Prior Measurement Date	.06281110%	.06159759%	
Current Measurement Date	.06404960%	.06223100%	
Change in Proportionate Share	.00123850%	.000063341%	
 Proportionate Share of the Net Pension Liability	 \$3,832,199	 \$13,762,014	 \$17,594,213

**Note 12 - Defined Benefit Pension Plans** (continued)

**Actuarial Assumptions - SERS**

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67 as part of the 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 modification 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, 2019, are presented below.

Inflation	3 percent
Future Salary Increases, including inflation	3.5 percent to 18.2 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.5 percent net of investment expenses, 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 projections and a five year set back for both males and females. Mortality among service retired members and beneficiaries were based on the RP-2014 Blue Collar Mortality Table with fully generational projections with Scale BB; 120 percent of male rates and 110 percent of female rates. Mortality among disabled members was based on 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.

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**Note 12 - Defined Benefit Pension Plans** (continued)

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 an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

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

Discount Rate - The total pension liability was calculated using the discount rate of 7.5 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 earnings were calculated using the long-term assumed investment rate of return (7.5 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate and to illustrate the potential impact, the following table presents the net pension liability calculated using the discount rate of 7.5 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 (6.5 percent) or one percentage point higher (8.5 percent) than the current rate.

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**Note 12 - Defined Benefit Pension Plans** (continued)

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
School District's Proportionate Share of the Net Pension Liability	5,370,282	3,832,199	2,542,325

**Actuarial Assumptions - STRS**

Key methods and assumptions used in the latest actuarial valuation reflecting experience study results used in the July 1, 2019, actuarial valuation are presented below.

Inflation	2.5 percent
Projected Salary Increases	12.5 percent at age 20 to 2.5 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 percent effective July 1, 2017

Postretirement mortality rates for healthy retirees were based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age sixty-nine, 70 percent of rates between ages seventy and seventy-nine, 90 percent of rates between ages eighty and eighty-four, and 100 percent of rates thereafter, projected forward generationally using Mortality Improvement Scale MP-2016. Postretirement disabled mortality rates were 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. Preretirement mortality rates were based on the RP-2014 Employee Mortality Table, projected forward generationally using Mortality Improvement Scale MP-2016.

Actuarial assumptions used in the June 30, 2019, valuation are based on the results of an actuarial experience study for the period July 1, 2011, through June 30, 2016.



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**Note 12 - Defined Benefit Pension Plans** (continued)

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

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

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

\*\* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a thirty 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, 2019. 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, 2019. 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, 2019.

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's Proportionate Share of the Net Pension Liability	20,111,647	13,762,014	8,386,720

**Note 12 - Defined Benefit Pension Plans** (continued)

**Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2020, two of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Note 13 - Defined Benefit OPEB Plans**

See Note 12 for a description of the net OPEB liability (asset).

**School Employees Retirement System (SERS)**

Plan Description - The School District contributes to the SERS Health Care Fund administered by SERS for nonteaching retirees and their beneficiaries. For GASB Statement No. 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. The SERS Health Care Plan provides health care benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need ten 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 sixty-five 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 State statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under employers/audit resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). The 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 establishes 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 2020, no allocation 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, prorated if less than a full year of service credit was earned. For fiscal year 2020, this amount was \$19,600. State statute provides 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 2020, the School District's surcharge obligation was \$39,133

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**Note 13 - Defined Benefit OPEB Plans** (continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the amount assigned to the Health Care Fund. The School District's contribution for health care was \$52,981 for fiscal year 2020.

**State Teachers Retirement System (STRS)**

Plan Description - The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing health care plan for eligible retirees who participated in the defined benefit and combined pension plans offered by STRS. Ohio law authorizes STRS to offer the 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, 2021. The Plan is included in the STRS financial report which can be obtained by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the health care 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. All benefit recipients pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2020, STRS did not allocate any employer contributions to postemployment health care.

**Net OPEB Liability (Asset)**

The net OPEB liability (asset) was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability (asset) was based on the School District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share.

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability			
Prior Measurement Date	.06332820%	.06159759%	
Current Measurement Date	.06465460%	.06223100%	
Change in Proportionate Share	<u>.00132640%</u>	<u>.00063341%</u>	
 Proportionate Share of the Net OPEB Liability (Asset)	 \$1,625,927	 (\$1,030,695)	 \$595,232

**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 termination). Actuarially determined amounts are subject to continual review and potential modification as actual results are compared with past expectations and new estimates are made about the future.

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**Note 13 - Defined Benefit OPEB Plans** (continued)

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2019, are presented below.

Inflation	3 percent
Wage Increases	3.5 percent to 18.2 percent
Investment Rate of Return	7.5 percent net of investment expenses, including inflation
Municipal Bond Index Rate	
Measurement Date	3.13 percent
Prior Measurement Date	3.62 percent
Single Equivalent Interest Rate, net of plan investment expense including inflation	
Measurement Date	3.22 percent
Prior Measurement Date	3.7 percent
Medical Trend Assumption	
Medicare	5.25 to 4.75 percent
Pre-Medicare	7 to 4.75 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projections with Scale BB; 120 percent of male rates and 110 percent of female rates and the 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, 7.5 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 ten 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.

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**Note 13 - Defined Benefit OPEB Plans** (continued)

The SERS Health Care Plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 12.

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2019, was 3.22 percent. The discount rate used to measure total OPEB liability prior to June 30, 2019, was 3.7 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the retirement system at the State statute contribution rate of 2 percent of projected covered employee payroll each year which includes a 1.5 percent payroll surcharge and .5 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 Twenty-Year Municipal Bond Index rate of 3.13 percent, as of June 30, 2019 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS and what SERS' net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.22 percent) or one percentage point higher (4.22 percent) than the current discount rate (3.22 percent). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are one percentage point lower (6 percent decreasing to 3.75 percent) and one percentage point higher (8 percent decreasing to 5.75 percent) than the current rate.

	1% Decrease (2.22%)	Current Discount Rate (3.22%)	1% Increase (4.22%)
School District's Proportionate Share of the Net OPEB Liability	\$1,973,567	\$1,625,927	\$1,349,513
	1% Decrease (6% Decreasing to 3.75%)	Current Trend Rate (7% Decreasing to 4.75%)	1% Increase (8% Decreasing to 5.75%)
School District's Proportionate Share of the Net OPEB Liability	\$1,302,697	\$1,625,927	\$2,054,775

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**Note 13 - Defined Benefit OPEB Plans** (continued)

**Actuarial Assumptions - STRS**

Key methods and assumptions used in the latest actuarial valuation reflecting experience study results used in the June 30, 2019, actuarial valuation are presented below.

Projected Salary Increases	12.5 percent at age 20 to 2.5 percent at age 65
Investment Rate of Return	7.45 percent net of investment expenses, including inflation
Payroll Increases	3 percent
Discount Rate of Return	7.45 percent
Health Care Cost Trends	
Medical	
Pre-Medicare	5.87 percent initial, 4 percent ultimate
Medicare	4.93 percent initial, 4 percent ultimate
Prescription Drug	
Pre-Medicare	7.73 percent initial, 4 percent ultimate
Medicare	9.62 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 were based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age sixty-nine, 70 percent of rates between ages seventy and seventy-nine, 90 percent of rates between ages eighty and eighty-four, and 100 percent of rates thereafter, projected forward generationally using Mortality Improvement Scale MP-2016. Postretirement disabled mortality rates were 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, 2019, 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, there was no change to the claims cost process. Claim curves were trended to the fiscal year ending June 30, 2020, to reflect the current price renewals. The non-Medicare subsidy percentage was increased effective January 1, 2020, from 1.944 percent to 1.984 percent per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2020. The Medicare subsidy percentages were adjusted effective January 1, 2021, to 2.1 percent for the Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed to January 1, 2021.

The STRS Health Care Plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 12.

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**Note 13 - Defined Benefit OPEB Plans** (continued)

Discount Rate - The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes STRS 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 of 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, 2019.

Sensitivity of the School District's Proportionate Share of the Net OPEB Asset to Changes in the Discount Rate and the Health Care Cost Trend Rate - The following table represents the net OPEB asset as of June 30, 2019, 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%)
School District's Proportionate Share of the Net OPEB Asset	\$879,493	\$1,030,695	\$1,157,820
	1% Decrease	Current Trend Rate	1% Increase
School District's Proportionate Share of the Net OPEB Asset	\$1,168,760	\$1,030,695	\$861,598

**Note 14 - Other Employee Benefits**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty-one days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated to an unlimited amount for certified employees and administrators and up to a maximum of three hundred days for classified employees. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit to a maximum of seventy days for certified employees and seventy-five days for classified employees.

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**Note 14 - Other Employee Benefits** (continued)

**B. Health Care Benefits**

The School District offers medical and dental benefits to full-time employees through the Wood County Schools Benefit Plan Association. Vision benefits are available through Vision Service Plan. The School District also offers life insurance to all employees through the American United Life Insurance Company.

**Note 15 - Long-Term Obligations**

Changes in the School District's long-term obligations during fiscal year 2020 were as follows:

	Balance at 6/30/19	Additions	Reductions	Balance at 6/30/20	Amounts Due Within One Year
General Obligation Debt					
FY 2017A School Facilities Refunding					
Serial Bonds 1 - 4%	\$6,300,000	\$0	\$80,000	\$6,220,000	\$80,000
Term Bonds 4%	1,050,000	0	0	1,050,000	0
Premium	984,037	0	10,711	973,326	0
FY 2017B School Facilities Refunding					
Serial Bonds 1 - 4%	4,655,000	0	615,000	4,040,000	615,000
Premium	742,818	0	98,138	644,680	0
General Obligation Debt from Direct Placement					
FY 2010 Certificates of Participation 1.95%	1,730,000	0	275,000	1,455,000	280,000
Total General Obligation Debt	15,461,855	0	1,078,849	14,383,006	975,000
Loan from Direct Placement					
FY 2019 Bus Loan	361,737	0	79,929	281,808	83,046
	<u>\$15,823,592</u>	<u>\$0</u>	<u>\$1,158,778</u>	<u>\$14,664,814</u>	<u>\$1,058,046</u>

School Facilities Refunding Bonds, Series A FY 2017 - On August 11, 2016, the School District issued bonds, in the amount of \$7,605,000, to currently refund FY 2007 School Facilities Construction and Improvement Refunding Bonds. The refunding bond issue consists of serial and term bonds, in the original amount of \$6,555,000 and \$1,050,000, respectively. The bonds were issued for a sixteen fiscal year period, with final maturity in fiscal year 2033. The bonds are being retired through the Bond Retirement debt service fund.



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**Note 15 - Long-Term Obligations** (continued)

The bonds maturing on December 1, 2029, are subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the date of redemption, on December 1 in the years and the respective principal amounts as follows:

Year	Amount
2025	\$20,000
2026	20,000
2027	15,000
2028	20,000
2029	975,000

The serial bonds maturing on or after December 1, 2026, are subject to prior redemption on or after December 1, 2025, by and at the sole option of the School District, either in whole or in part and in integral multiples of \$5,000, at a redemption price of 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

School Facilities Refunding Bonds, Series B FY 2017 - On August 30, 2016, the School District issued bonds, in the original amount of \$4,785,000, to currently refund a portion of FY 2007 School Facilities Construction and Improvement Refunding Bonds. The refunding bond issue consists of serial bonds. The bonds were issued for a twelve fiscal year period, with final maturity in fiscal year 2029. The bonds are being retired through the Bond Retirement debt service fund.

The serial bonds maturing on or after December 1, 2026, are subject to prior redemption on or after December 1, 2025, by and at the sole option of the School District, either in whole or in part and in integral multiples of \$5,000, at a redemption price of 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

Certificates of Participation FY 2010 - On December 18, 2009, the School District issued certificates of participation through a direct placement, in the original amount of \$4,000,000, to construct and renovate buildings. The debt was issued in accordance with the American Recovery and Reinvestment Act of 2009, which provides for federal tax credits for the holders of debt in lieu of interest payments. This reduces the issuers costs of borrowing. This debt was issued for a fifteen year period, with final maturity at during fiscal year 2025. The debt will be retired through the General Fund.

The debt maturing on September 16, 2024, is subject to mandatory sinking fund redemption, at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the date of redemption, on December 1 in each year and principal amount as follows:

Year	Amount
2020	\$280,000
2021	285,000
2022	290,000
2023	295,000

The remaining principal, in the amount of \$305,000, will be paid at stated maturity on September 16, 2024.

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**Note 15 - Long-Term Obligations** (continued)

FY 2019 Bus Loan - On August 17, 2018, the School District entered into a loan through a direct placement with a local bank for the purchase of three school busses. The loan has an interest rate of 3.75 percent and matures on August 11, 2023.

The School District's overall debt margin was \$13,735,840 with an unvoted debt margin of \$290,380 at June 30, 2020.

Principal and interest requirements to retire the general obligation debt outstanding at June 30, 2020, were as follows:

Fiscal Year Ending June 30,	From Direct Placement	General Obligation Bonds			
	Certificates of Participation	Serial	Term	Interest	Total
2021	\$280,000	\$695,000	\$0	\$427,820	\$1,402,820
2022	285,000	740,000	0	403,970	1,428,970
2023	290,000	745,000	0	387,292	1,422,292
2024	295,000	765,000	0	360,975	1,420,975
2025	305,000	790,000	0	324,552	1,419,552
2026-2030	0	3,355,000	1,050,000	1,090,500	5,495,500
2031-2033	0	3,170,000	0	193,600	3,363,600
	<u>\$1,455,000</u>	<u>\$10,260,000</u>	<u>\$1,050,000</u>	<u>\$3,188,709</u>	<u>\$15,953,709</u>

Fiscal Year Ending June 30	From Direct Placement		
	Bus Loan		
	Principal	Interest	Total
2021	\$83,046	\$9,558	\$92,604
2022	86,251	6,353	92,604
2023	89,580	3,024	92,604
2024	22,931	220	23,151
	<u>\$281,808</u>	<u>\$19,155</u>	<u>\$300,963</u>

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**Note 16 - Fund Balance**

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

Fund Balance	General	Bond Retirement	Other Governmental	Total Governmental Funds
Restricted for:				
Athletics and Music	\$0	\$0	\$94,736	\$94,736
Building Construction	0	0	16,332	16,332
Debt Retirement	0	648,470	0	648,470
Food Service Operations	0	0	49,122	49,122
Regular Instruction	0	0	18,300	18,300
Special Instruction	135,470	0	4,069	139,539
Student Activities	0	0	124,332	124,332
Student Wellness	0	0	76,832	76,832
<b>Total Restricted</b>	<b>135,470</b>	<b>648,470</b>	<b>383,723</b>	<b>1,167,663</b>
Committed for:				
Facilities Maintenance	0	0	88,160	88,160
Assigned for:				
Chromebook Insurance	20,722	0	0	20,722
Educational Activities	8,688	0	0	8,688
Extracurricular Activities	45,515	0	0	45,515
Regular Instruction	1,380	0	0	1,380
Unpaid Obligations	53,015	0	0	53,015
<b>Total Assigned</b>	<b>129,320</b>	<b>0</b>	<b>0</b>	<b>129,320</b>
Unassigned (Deficit)	4,021,559	0	(159,539)	3,862,020
<b>Total Fund Balance</b>	<b>\$4,286,349</b>	<b>\$648,470</b>	<b>\$312,344</b>	<b>\$5,247,163</b>

**Note 17 - Interfund Transfers**

During fiscal year 2020, the General Fund made transfers to other governmental funds, in the amount of \$135,000, to subsidize various programs in other funds. Other governmental funds made transfers to other governmental funds, in the amount of \$108,997, to be used for building maintenance.

**Note 18 - Set Asides**

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

Otsego Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

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**Note 18 - Set Asides** (continued)

The following cash basis information identifies the change in the fund balance for capital improvements during fiscal year 2020.

Balance June 30, 2019	\$0
Current Year Set Aside Requirement	277,589
Current Year Offsets	<u>(277,589)</u>
Balance June 30, 2020	<u><u>\$0</u></u>

**Note 19 - Donor Restricted Endowments**

The School District's private purpose trust fund includes donor restricted endowments. Endowment, in the amount of \$27,980, represents the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditure by the School District is \$29,432 and is included as held in trust for scholarships. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide a scholarship each year.

**Note 20 - Jointly Governed Organizations**

**A. Northwest Ohio Computer Association**

The School District is a participant in the Northwest Ohio Computer Association (NWOCA), which is a computer consortium. NWOCA is an association of educational entities with 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 educational entities.

The NWOCA Assembly consists of the superintendent from each participating educational entity and a representative from the fiscal agent. The assembly elects the governing Council of two representatives from each of the six counties in which 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. During fiscal year 2020, the School District paid \$80,190 to NWOCA for various services. Financial information can be obtained from the Northwest Ohio Computer Association, 209 Nolan Parkway, Archbold, Ohio 43502.

**B. Northern Buckeye Education Council**

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among 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 six 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. Financial information can be obtained from the Northern Buckeye Educational Council, 209 Nolan Parkway, Archbold, Ohio 43502.

**Note 20 - Jointly Governed Organizations** (continued)

**C. Penta Career Center**

The Penta Career Center (Career Center) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Career Center is operated under the direction of a Board consisting of nine board members appointed from participating School Districts' or Educational Service Centers' elected Board of Education. The Board consists of one representative from each exempted village and/or city school district: Bowling Green, Maumee, Perrysburg, and Rossford; one representative from each of these counties: Fulton, Ottawa, and Lucas; and two representatives from Wood County. The Board possesses its own budgeting and taxing authority. Financial information can be obtained from the Penta Career Center, 9301 Buck Road, Perrysburg, Ohio 43551.

**Note 21 - Related Organization**

The Weston Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Otsego Local School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the School District for operational subsidies. Although the School District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Weston Public Library, P.O. Box 345, Weston, Ohio 43569-0345.

**Note 22 - Insurance Pools**

**A. Wood County Schools Benefit Plan Association**

The Wood County Schools Benefit Plan Association (Association) is a public entity shared risk pool consisting of six local school districts, two exempted village school districts, a city school district, a joint vocational school, and an educational service center. The Association is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and other benefits to the employees of the participating entities. Each participating entity's superintendent is appointed to an Administrative Committee which advises the Trustee, Huntington Bank, concerning aspects of the administration of the Association.

Each entity decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Association is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information may be obtained from Huntington Retirement Plan Services, 519 Madison Avenue - 3<sup>rd</sup> Floor, Toledo, Ohio 43604.

**Note 22 - Insurance Pools** (continued)

**B. Optimal Health Initiatives Workers' Compensation Group Rating Plan**

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Optimal Health Initiatives Workers' Compensation Group Rating Plan (Plan) was established through Optimal Health Initiatives (OHI) as an insurance purchasing pool. The Plan is governed by the OHI and the participants of the Plan. The Executive Director of the OHI coordinates the management and administration of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

**Note 23 - Contingencies**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2020.

**B. School Foundation**

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year end. As of the date of this report, ODE adjustments for fiscal year 2020 have been finalized and resulted in a receivable to the School District of \$52,560, which has since been received.

**C. Litigation**

There are currently no matters in litigation with the School District as defendant.

**Note 24 - Related Party**

Contrary to the requirements of the Ohio Revised Code, Board of Education member Brad Anderson did not abstain from voting on approving payments to his employer, Century Equipment. The School District made payment of \$4,618 in fiscal year 2020 to Century Equipment.

Otsego Local School District  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

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**Note 25 - COVID-19**

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures may impact subsequent period of the School District. The School District's investment portfolio and the investments of the pension and other employee benefit plans in which the School District participates fluctuate with market conditions, and due to market volatility, the amount of gains and loss that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the School District's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

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# OHIO AUDITOR OF STATE KEITH FABER



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NorthwestRegion@ohioauditor.gov

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

Otsego Local School District  
Wood County  
18505 Tontogany Creek Road, Suite 1  
Bowling Green, Ohio 43402

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 Otsego Local School District, Wood County, Ohio, (the District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 19, 2021, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles. We also noted the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. In addition, we noted the financial impact of COVID-19 and the continuing emergency measures which may impact subsequent periods of the District.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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 financial statements. 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 2020-001.

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

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

March 19, 2021

**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2020**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2020-001**

**Noncompliance**

**Ohio Rev. Code § 117.38** 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).

As a cost savings measure, the District prepared financial statements that, although formatted similar to financial statements prescribed by the Governmental Accounting Standards Board, 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:**

Our Board decided to file cash basis since we could no longer file GAAP and be audited cash as done in the past.

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**OTSEGO LOCAL SCHOOL DISTRICT  
WOOD COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2020**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2019-001	Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117- 2-03(B), for not reporting financial statements on a Generally Accepted Accounting Principles (GAAP) basis. Finding first reported in 2016.	Not corrected and reissued as Finding 2020-001 in this report.	Board decided to file on a cash basis since they can no longer get audited on the cash basis and file GAAP.

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# OHIO AUDITOR OF STATE KEITH FABER



**OTSEGO LOCAL SCHOOL DISTRICT**

**WOOD COUNTY**

**AUDITOR OF STATE OF OHIO CERTIFICATION**

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



**Certified for Release 4/13/2021**

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

This report is a matter of public record and is available online at  
[www.ohioauditor.gov](http://www.ohioauditor.gov)