



OHIO AUDITOR OF STATE
KEITH FABER



**CANTON HARBOR HIGH SCHOOL
STARK COUNTY
JUNE 30, 2018**

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OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT

Canton Harbor High School
Stark County
1731 Grace Avenue
Canton, Ohio 44705

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the Canton Harbor High School, Stark County, Ohio (the School), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School'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 School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Canton Harbor High School, Stark County, Ohio, as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2018, the School adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2019, on our consideration of the School'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 School's internal control over financial reporting and compliance.



Keith Faber
Auditor of State

Columbus, Ohio

May 31, 2019

**CANTON HARBOR HIGH SCHOOL
STARK COUNTY, OHIO**

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

The discussion and analysis of Canton Harbor High School's (the School) financial performance provides an overall review of the financial activities for the fiscal year ended June 30, 2018. Readers should also review the notes to the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

The School's existence began July 1, 2004. Key financial highlights for fiscal year 2018 are as follows:

- Total net position increased \$562,286 in fiscal year 2018
- Total revenue increased from \$1,069,791 in fiscal year 2017 to \$1,313,915 in fiscal year 2018.
- Total expenses decreased from \$1,055,423 in fiscal year 2017 to \$751,629 in fiscal year 2018.
- A decrease in net pension liability and net OPEB liability substantially decreased fringe benefits expenses compared to fiscal year 2017. See further explanation after Table 1.
- The School implemented GASB 75, which decreased beginning net position as previously reported by \$301,731.

Using this Financial Report

This annual report consists of a series of financial statements and notes to those statements. The basic financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position reflect "How the School did financially during fiscal year 2018?" These statements include all assets and deferred outflows of resources; and liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting includes all of the current year revenues and expenses regardless of when cash is received or paid.

These statements report the School's net position and changes in net position. This change in net position is important because it tells the reader whether the financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School's student enrollment, per-pupil funding as determined by the State of Ohio, change in technology, required educational programs and other factors.

The School uses enterprise presentation for all of its activities.

**CANTON HARBOR HIGH SCHOOL
STARK COUNTY, OHIO**

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

Statement of Net Position

Table 1 provides a summary of the School's net position as of June 30, 2018 compared to the prior year.

(Table 1)
Statement of Net Position

	2018	Restated 2017
Assets		
Current Assets	\$ 631,377	\$ 421,171
Capital Assets, net	144,658	138,942
<i>Total Assets</i>	776,035	560,113
 Deferred Outflows of Resources		
Pension & OPEB	646,968	399,670
 Liabilities		
Current Liabilities	58,970	48,442
Long Term Liabilities	1,470,149	1,619,803
<i>Total Liabilities</i>	1,529,119	1,668,245
 Deferred Inflows of Resources		
Pension & OPEB	116,467	76,407
 Net Position		
Investment in Capital Assets	144,658	138,942
Unrestricted	(367,241)	(923,811)
<i>Total Net Position</i>	\$ (222,583)	\$ (784,869)

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

**CANTON HARBOR HIGH SCHOOL
STARK COUNTY, OHIO**

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

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

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

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

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

**CANTON HARBOR HIGH SCHOOL
STARK COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
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Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

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

As a result of implementing GASB 75, the School is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from a deficit of \$483,138 to a deficit of \$784,869.

Current assets increased in 2018 by \$210,206 due to an increase in State Foundation receipts. Long term liabilities increased \$149,654 due to change in the net pension and OPEB liabilities. The significant increase in deferred outflows and inflows related to pension/OPEB are primarily from the change of assumptions and the difference in projected and actual investments earnings, respectively. All components of pension and OPEB accruals contribute to the fluctuations in deferred outflows/inflows and Pension Liability/Net OPEB Liability described in more detail in their respective notes.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2018 and 2017.

**CANTON HARBOR HIGH SCHOOL
STARK COUNTY, OHIO**

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

(Table 2)
Change in Net Position

	2018	2017
Operating Revenue		
Foundation	\$ 1,204,037	\$ 983,195
Other Operating Revenues	9,083	6,408
 Non-Operating Revenue		
Grants	93,595	80,008
Interest Income	200	180
Donations	7,000	0
Total Revenues	1,313,915	1,069,791
 Operating Expenses		
Salaries	604,314	542,990
Fringe Benefits	(180,891)	186,077
Purchased Services	113,564	127,135
Materials and Supplies	47,026	48,875
Insurance	17,519	16,525
Rent	75,012	74,688
Sponsor Fees	37,424	34,235
Depreciation	37,661	24,898
Total Expenses	751,629	1,055,423
 Total Change in Net Position	562,286	14,368
 Net Position Beginning of Year (Restated)	(784,869)	(497,506)
 Net Position End of Year	\$ (222,583)	\$ (483,138)

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$504 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements

**CANTON HARBOR HIGH SCHOOL
STARK COUNTY, OHIO**

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

report negative OPEB expense of \$21,762. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 Program Expenses under GASB 75	\$ 751,629
Negative OPEB Expense under GASB 75	21,762
2018 Contractually Required Contribution	<u>1,333</u>
Adjusted 2018 Program Expenses	774,724
Total 2017 Program Expenses under GASB 45	<u>1,055,423</u>
Decrease in Program Expenses not Related to OPEB	<u><u>\$ (280,699)</u></u>

The revenue generated by the School is almost entirely dependent on per-pupil allotment given by the State foundation and from federal entitlement programs. Foundation payments made up 92% of revenues for the School in fiscal year 2018. Enrollment during the school year ranged from 120 to 138 students as compared to 111 to 116 in fiscal year 2017. Projected enrollment for fiscal year 2019 is expected to average 158 students.

See financial highlights for explanation of fluctuations in fringe benefits expenses. The negative expense of fringe benefits was also caused by these accruals.

Capital Assets

At the end of fiscal year 2018 the School had \$144,658 in net capital assets. See Note 4 for more detail on the School's capital assets.

Current Financial Related Activities

The School's financial outlook over the next several years shows continued growth as enrollment is projected to increase by another 14% to 15% for fiscal year 2019. Growth is projected at smaller rates in the following years as the number of students attending the school nears the building occupancy limit.

A re-branding process was initiated at the beginning of fiscal year 2015. A name change for the School was approved by the Sponsor, Secretary of State and the Ohio Department of Education. The School has since been known as Canton Harbor High School. The administration continues to enlighten the community about Canton Harbor High School through a marketing campaign centered on the school's excellent educational programs and improving test scores.

Contacting the School's Financial Management

This financial report is designed to provide all citizens, taxpayers, and creditors with a general overview of the School's finances. Questions concerning any of the information in this report or requests for additional information should be directed to Joseph L. DiRuzza, CFO, Canton Harbor High School, 1731 Grace Avenue, NE., Canton, Ohio 44705-2261.

**CANTON HARBOR HIGH SCHOOL
STARK COUNTY, OHIO
STATEMENT OF NET POSITION
JUNE 30, 2018**

Assets

Current Assets

Cash and Cash Equivalents	\$ 616,211
Receivables:	
Intergovernmental	3,742
Accounts	4,061
Prepaid Expenses	7,363
Total Current Assets	631,377

Noncurrent Assets

Capital Assets:	
Non-Depreciable Capital Assets	12,248
Depreciable Capital Assets	219,169
Accumulated Depreciation	(86,759)
Capital Assets, Net	144,658
Total Assets	776,035

Deferred Outflows of Resources

Pension	599,164
OPEB	47,804
Total Deferred Outflows of Resources	646,968

Liabilities

Current Liabilities

Accounts Payable	11,972
Accrued Wages	45,599
Intergovernmental Payable	1,399
Total Current Liabilities	58,970

Long-Term Liabilities

Due in More Than One Year	
Net Pension Liability	1,175,688
Net OPEB Liability	294,461
Total Long Term Liabilities	1,470,149
Total Liabilities	1,529,119

Deferred Inflows of Resources

Pension	84,488
OPEB	31,979
Total Deferred Inflows of Resources	116,467

Net Position

Investment in Capital Assets	144,658
Unrestricted	(367,241)
Total Net Position	\$ (222,583)

See accompanying notes to the basic financial statements.

**CANTON HARBOR HIGH SCHOOL
STARK COUNTY, OHIO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Operating Revenues	
Foundation	\$ 1,204,037
State Distributed Casino Revenue	5,777
Other Operating Revenues	<u>3,306</u>
Total Operating Revenues	<u>1,213,120</u>
Operating Expenses	
Salaries	604,314
Fringe Benefits	(180,891)
Purchased Services	113,564
Materials and Supplies	47,026
Insurance	17,519
Rent	75,012
Sponsor Fee	37,424
Depreciation	<u>37,661</u>
Total Operating Expenses	<u>751,629</u>
Operating Income (Loss)	461,491
Non-Operating Revenues	
Interest Income	200
Grants	93,595
Donations	<u>7,000</u>
Total Non-Operating Revenues	<u>100,795</u>
Change in Net Position	562,286
Net Position Beginning of Year (Restated - See Note 2)	<u>(784,869)</u>
Net Position End of Year	<u><u>\$ (222,583)</u></u>

See accompanying notes to the basic financial statements.

**CANTON HARBOR HIGH SCHOOL
STARK COUNTY, OHIO
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received From State	\$ 1,219,167
Other Cash Receipts	3,306
Cash Payments to Employees for Services	(600,997)
Cash Payments for Employee Benefits	(176,001)
Cash Payments for Goods and Services	(153,230)
Other Cash Payments	(129,955)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>162,290</u>
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets	<u>(36,377)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Grants Received	93,595
Interest Income	200
<i>Net Cash Provided by (Used for) Non-Capital Financing Activities</i>	<u>93,795</u>
Net Increase (Decrease) in Cash and Cash Equivalents	219,708
Cash and Cash Equivalents Beginning of Year	<u>396,503</u>
Cash and Cash Equivalents End of Year	<u>\$ 616,211</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	
Operating Income (Loss)	\$ 461,491
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:	
Depreciation	37,661
Changes in Assets, Liabilities and Deferred Outflows/Inflows of Resources:	
Intergovernmental Receivable	(3,742)
Accounts Receivable	12,238
Grants Receivable	857
Prepaid Expenses	149
Deferred Outflows - Pension	(199,998)
Deferred Outflows - OPEB	(47,300)
Accounts Payable	8,198
Accrued Wages	3,317
Intergovernmental Payable	(987)
Net Pension Liability	(141,880)
Net OPEB Liability	(7,774)
Deferred Inflows - Pension	8,081
Deferred Inflows - OBEB	31,979
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 162,290</u>

Non-Cash – During the year the School received \$6,990 in donated capital assets.

See accompanying notes to the basic financial statements.

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**CANTON HARBOR HIGH SCHOOL
STARK COUNTY, OHIO**

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

1. DESCRIPTION OF THE ENTITY

Canton Harbor High School (the School) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School, which is part of the State's education program, is independent of any school district and is nonsectarian in its programs, admission policies, employment practices, and all other operations. On July 28, 2014, the School changed its name from "Project REBUILD Community High School" to its current operating name. Classified as a drop-out recovery high school by the Ohio Department of Education (ODE), the purpose of the School is to re-engage out-of-school youth to complete a high school diploma while learning marketable skills.

The School may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the School. The School was approved for operation from July 1, 2004 to June 30, 2009 under a contract by and between the Ohio Council of Community Schools (OCCS), as Sponsor, and the Governing Authority of Canton Harbor High School, dated April 7, 2004. The School commenced official operation on July 1, 2004. The OCCS has continued to sponsor the School over the years and recently granted a new five year contract, commencing on July 1, 2015 and will expire June 30, 2020. The Board is responsible for carrying out the provisions of the contract, which include, but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers. The Board oversees the School's principal, treasurer, assistant treasurer, dean of students, EMIS coordinator/school secretary and test coordinator. They also watch over six certified full-time teaching personnel and two intervention specialists. In all, an average daily membership (ADM) of 137 students were provided services during the school year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the School have been prepared in conformity with generally accepted accounting principles as applied to a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

Basis of Presentation

The School's basic financial statements consist of a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. The School uses enterprise accounting to maintain its financial records during the fiscal year. Enterprise accounting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Enterprise accounting may be used to account for any activity for which a fee is charged to external users for goods or services.

**CANTON HARBOR HIGH SCHOOL
STARK COUNTY, OHIO**

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

Measurement Focus/Basis of Accounting

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the School are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The Statement of Cash Flows reflects how the School finances and meets its cash flow needs.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is used for reporting purposes. Revenue resulting from exchange transactions, in which each party gives and receives equal value, is recorded on the accrual basis when the exchange takes place. Revenue resulting from non-exchange transactions, in which the School receives value without directly giving equal value in return, such as grants, entitlements and donations, are recognized in the period in which all eligibility requirements have been satisfied. Expenses are recognized at the time they are incurred.

Budgetary Process

Community schools are statutorily required to adopt a budget by Ohio Revised Code 3314.032(C). However, unlike traditional public schools located in the State of Ohio, community schools are not required to follow the specific budgetary process and limits set forth in the Ohio Revised Code Chapter 5705, unless specifically provided in the contract between the School and its Sponsor. The contract between the School and its Sponsor does not require the School to follow the provisions Ohio Revised Code Chapter 5705; therefore, no budgetary information is presented in the basic financial statements.

Cash

Cash held by the School is reflected as “cash and cash equivalents” on the statement of net position. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Cash equivalents mature in three months or less. All monies received by the School are deposited in a demand deposit account.

Capital Assets and Depreciation

Capital assets and improvements, except for construction in progress, are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value as of the date received. The School maintains a capitalization threshold of \$750 for all capital assets.

**CANTON HARBOR HIGH SCHOOL
STARK COUNTY, OHIO**

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

The School does not capitalize interest. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements, however, are capitalized. Leasehold improvements and furniture and fixtures are depreciated using the straight-line method over the assets' estimated useful lives. Improvements to capital assets are depreciated over the remaining useful lives of the related capital assets. Leasehold improvements are depreciated over the remaining life of the lease, or the useful life of the improvements, whichever is shorter. The following is the estimated useful lives for furniture and fixtures and leasehold improvements.

<u>Assets</u>	<u>Useful Life</u>
Furniture and Fixtures	5 years
Leasehold Improvements	1 - 20 years

Intergovernmental Revenues

The School currently participates in the State Foundation Program and State Disadvantaged Pupil Impact Aid Program. Revenues received from these programs are recognized as operating revenues in the accounting period in which all eligibility requirements have been met. Grants and entitlements, non-exchange transactions in which the School receives value without directly giving equal value in return, are recognized as non-operating revenues in the accounting period in which all eligibility requirements have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. The School participates in the Comprehensive Continuous Improvement Planning Program through the Ohio Department of Education. Revenue received from this program is recognized as non-operating revenue. Amounts awarded under the above programs for the 2018 school year totaled \$93,595.

Compensated Absences

Leave benefits are not accrued as a liability for the School. Personal leave is to be used during the contract year with no provision for carry over from one school year to the next. Unused sick leave may be accumulated up to forty-five (45) days maximum; however, accumulated sick leave balances are forfeited upon termination of employment. Vacation leave is scheduled in advance according to the school calendar.

Pension and Other Postemployment Benefits (OPEB)

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

**CANTON HARBOR HIGH SCHOOL
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Accrued Liabilities and Long-term Obligations

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School, deferred outflows of resources are reported on the statement of net position for deferred charges for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 7 and 8.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School, deferred inflows of resources include pension and OPEB. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 7 and 8).

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Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. At June 30, 2018, there was no net position restricted by enabling legislation.

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All other revenues and expenses are reported as non-operating.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase by the School and an expense is recorded when used. The School had prepaid items at June 30, 2018 of \$7,363 for bus passes, rent, and gift cards.

Implementation of New Accounting Policies and Restatement of Net Position

For the fiscal year ended June 30, 2018, the School has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishments*.

GASB Statement No. 75 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 75 resulted in the inclusion of net OPEB liability and OPEB expense components on the accrual financial statements. See below for the effect on net position as previously reported.

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Net Position, June 30, 2017	\$ (483,138)
Adjustments:	
Net OPEB Liability	(302,235)
Deferred Outflow-Payments Subsequent to Measurement Date	504
Restated Net Position, July 1, 2017	<u>\$ (784,869)</u>

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the School.

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. These changes were incorporated in the School's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 86 addresses the reporting and disclosure requirements of certain debt extinguishments including in-substance defeasance transactions and prepaid insurance associated with debt that is extinguished. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the School.

Other than employer contributions subsequent to the measurement date, the School made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

3. CASH

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

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

Inactive deposits are public deposits that School has identified as not required for use within the current two-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.

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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. The School had no investments at June 30, 2018 or during the fiscal year.

4. CAPITAL ASSETS

A summary of the School's capital assets is as follows:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 0	\$ 12,248	\$ 0	\$ 12,248
Capital Assets Being Depreciated:				
Leasehold Improvements	\$ 127,436	\$ 5,566	\$ 7,643	\$ 125,359
Furniture and Fixtures	107,818	25,563	39,571	93,810
	<u>235,254</u>	<u>31,129</u>	<u>47,214</u>	<u>219,169</u>
Less Accumulated Depreciation:				
Leasehold Improvements	(24,946)	(23,307)	(7,643)	(40,610)
Furniture and Fixtures	(71,366)	(14,354)	(39,571)	(46,149)
	<u>(96,312)</u>	<u>(37,661)</u>	<u>(47,214)</u>	<u>(86,759)</u>
Capital Assets, Net	<u>\$ 138,942</u>	<u>\$ 5,716</u>	<u>\$ 0</u>	<u>\$ 144,658</u>

5. LONG-TERM LIABILITIES

During the fiscal year 2018, the following activity occurred in long-term liabilities:

	Restated Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018
Net Pension/OPEB Liability:				
Pension	\$ 1,317,568	\$ 0	\$ (141,880)	\$ 1,175,688
OPEB	302,235	0	(7,774)	294,461
<i>Total Long-Term Liabilities</i>	<u>\$ 1,619,803</u>	<u>\$ 0</u>	<u>\$ (149,654)</u>	<u>\$ 1,470,149</u>

There is no repayment schedule for the net pension liability and net OPEB liability; however, employer pension and OPEB contributions are primarily made from the General Fund. For additional information related to the net pension liability and net OPEB liability see Notes 7 and 8.

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6. RISK MANAGEMENT

Property and Liability

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. For fiscal year 2018, the School contracted with Philadelphia Insurance Company for property and general liability insurance with limits of \$1,000,000 for each occurrence and \$12,000,000 in the aggregate. There was no significant reduction in insurance coverage from the prior year and claims have not exceeded insurance coverage over the past three years.

Worker's Compensation

The School pays the State Worker's Compensation System a premium for employee injury coverage. The premium is calculated by multiplying the monthly total gross payroll by a factor that is calculated by the State. The School had paid all premiums as of June 30, 2018.

7. DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

When a benefit recipient has received benefits for 12 months, an annual COLA is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a three percent simple annual COLA. For those retiring after January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at three percent.

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

The School's contractually required contribution to SERS was \$33,751 for fiscal year 2018. Of this amount, \$958 is reported as accrued wages.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, plan members were required to contribute 14 percent of their annual covered salary. The School was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The School's contractually required contribution to STRS was \$54,991 for fiscal year 2018. Of this amount, \$4,950 is reported as accrued wages.

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

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The School's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the Net Pension Liability:			
Current Measurement Date	0.00678680%	0.00324220%	
Prior Measurement Date	0.00638240%	0.00254066%	
Change in Proportionate Share	0.00040440%	0.00070154%	
Proportionate Share of the Net			
Pension Liability	\$ 405,496	\$ 770,192	\$ 1,175,688
Pension Expense	\$ 21,695	\$ (266,750)	\$ (245,055)

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in the School's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	\$ 17,453	\$ 29,740	\$ 47,193
Net Difference between Projected and Actual Earnings on Pension Plan Investments	0	0	0
Changes of Assumptions	20,969	168,450	189,419
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions	68,022	205,788	273,810
School Contributions Subsequent to the Measurement Date	33,751	54,991	88,742
Total Deferred Outflows of Resources	<u>\$ 140,195</u>	<u>\$ 458,969</u>	<u>\$ 599,164</u>
Deferred Inflows of Resources			
Differences between Expected and Actual Experience	\$ 0	\$ 6,207	\$ 6,207
Net Difference between Projected and Actual Earnings on Pension Plan Investments	1,925	25,418	27,343
Changes in Proportion and Differences between School Contributions and Proportionate Share of Contributions	0	50,938	50,938
Total Deferred Inflows of Resources	<u>\$ 1,925</u>	<u>\$ 82,563</u>	<u>\$ 84,488</u>

\$88,742 reported as deferred outflows of resources related to pension resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2019	\$ 52,535	\$ 65,296	\$ 117,831
2020	45,968	99,871	145,839
2021	15,469	105,305	120,774
2022	(9,453)	50,943	41,490
	<u>\$ 104,519</u>	<u>\$ 321,415</u>	<u>\$ 425,934</u>

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Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.50 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the most recent actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

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

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

Discount Rate The total pension liability was calculated using the discount rate of 7.50 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 (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School'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 School's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
School's Proportionate Share of the Net Pension Liability	\$ 562,723	\$ 405,496	\$ 273,786

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Actuarial Assumptions - STRS

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments	0.00 percent effective July 1, 2017

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

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

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

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

*The target allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

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

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Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. 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, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School's proportionate share of the net pension liability as of June 30, 2017, calculated using the current period discount rate assumption of 7.45 percent, as well as what the School'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 assumption:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School's Proportionate Share of the Net Pension Liability	\$ 1,104,043	\$ 770,192	\$ 488,971

Assumption Changes since the Prior Measurement Date

The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Benefit Term Changes since the Prior Measurement Date

Effective July 1, 2017, the COLA was reduced to zero.

8. DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the School's surcharge obligation was \$83.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School's contractually required contribution to SERS was \$1,333 for fiscal year 2018. Of this amount \$118 is reported as accrued wages.

Plan Description - State Teachers Retirement System (STRS)

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

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

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

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability			
Current Measurement Date	0.00625850%	0.00324220%	
Prior Measurement Date	<u>0.00583642%</u>	<u>0.00254066%</u>	
Change in Proportionate Share	<u>0.00042208%</u>	<u>0.00070154%</u>	
Proportionate Share of the Net OPEB Liability	\$ 167,962	\$ 126,499	\$ 294,461
OPEB Expense	\$ 11,478	\$ (33,240)	\$ (21,762)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	\$ 0	\$ 7,302	\$ 7,302
Changes in Proportionate Share and Differences between School Contributions and Proportionate Share of Contributions	7,010	32,159	39,169
School Contributions Subsequent to the Measurement Date	<u>1,333</u>	<u>0</u>	<u>1,333</u>
Total Deferred Outflows of Resources	<u>\$ 8,343</u>	<u>\$ 39,461</u>	<u>\$ 47,804</u>
Deferred Inflows of Resources			
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	\$ 443	\$ 5,407	\$ 5,850
Changes of Assumptions	15,939	10,190	26,129
Changes in Proportionate Share and Differences between School Contributions and Proportionate Share of Contributions	<u>0</u>	<u>0</u>	<u>0</u>
Total Deferred Inflows of Resources	<u>\$ 16,382</u>	<u>\$ 15,597</u>	<u>\$ 31,979</u>

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\$1,333 reported as deferred outflows of resources related to OPEB resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	\$ (3,346)	\$ 3,527	\$ 181
2020	(3,346)	3,527	181
2021	(2,570)	3,527	957
2022	(110)	3,528	3,418
2023	0	4,879	4,879
Thereafter	0	4,876	4,876
	\$ (9,372)	\$ 23,864	\$ 14,492

Actuarial Assumptions - SERS

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

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

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

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

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Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate	
Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Prior Measurement Date	2.98 percent, net of plan investment expense, including price inflation
Medical Trend Assumption	
Medicare	5.50 percent - 5.00 percent
Pre-Medicare	7.50 percent - 5.00 percent

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

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

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

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

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

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

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

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	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
School's Proportionate Share of the Net OPEB Liability	\$ 202,835	\$ 167,962	\$ 140,333
	1% Decrease	Current Trend Rate	1% Increase
School's Proportionate Share of the Net OPEB Liability	\$ 136,288	\$ 167,962	\$ 209,882

Actuarial Assumptions – STRS

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

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments (COLA)	0.00 percent effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6.00 percent to 11.00 percent, initial, 4.50 percent ultimate

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

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

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

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

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

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

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

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

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

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

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

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School's Proportionate Share of the Net OPEB Liability	\$ 169,822	\$ 126,499	\$ 92,259
	1% Decrease	Current Trend Rate	1% Increase
School's Proportionate Share of the Net OPEB Liability	\$ 87,886	\$ 126,499	\$ 177,318

9. MEDICAL EMPLOYEE BENEFITS

The Canton Harbor High School contracted with Aultcare for a group eligible medical policy for full-time employees of the School. All full-time employees are eligible to select coverage under this plan, once they have been employed by the School for thirty days.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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Employees pay 15% of the premium as a payroll withholding in a flat amount depending on the type of coverage chosen. The School paid for the remaining employer portion of the premiums for the School employees. In fiscal year 2012, the School added a dental plan benefit for full-time employees. Employees pay the full premium as a payroll withholding. There was no vision plan available in fiscal year 2018.

10. PURCHASED SERVICES

For the period July 1, 2017 through June 30, 2018, purchased service expenses were for the following services:

Professional Services	\$ 62,326
Property Services	7,345
Travel and Meetings	9,808
Communications	19,716
Utilities	915
Trade Services	3,967
Pupil Transportation	9,487
Total	<u>\$ 113,564</u>

11. SPONSORSHIP FEES

Under Paragraph D(4) of the sponsor contract with Ohio Council of Community Schools (OCCS), it States that a School "...shall pay to the Sponsor the amount of three percent (3%) of all state funds received by the School each year. Funds received each year with the following exceptions: planning and start-up funds, and grants the School may receive, in consideration for the time, organization, oversight, fees and costs of the Sponsor pursuant to this contract." Such fees are paid to the OCCS monthly. As indicated on the Statement of Revenues, Expenses and Changes in Net Position, the School incurred \$37,424 in sponsorship fees in fiscal year 2018. Of this total, \$35,543 represented sponsorship fees to OCCS and \$1,881 represents other miscellaneous fees.

12. TAX EXEMPT STATUS

In June 2005, the School completed its application and filed for tax exempt status under 501(c)3 of the Internal Revenue Code. On May 10, 2006, the School received notification of IRS approval for tax exempt status under 501(c)3 effective as of March 11, 2004.

**CANTON HARBOR HIGH SCHOOL
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

13. CONTINGENCIES

Grants

The School received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the School. 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 at June 30, 2018.

School Foundation

School foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. However, there is an important nexus between attendance and enrollment for Foundation funding purposes. Community schools must provide documentation that clearly demonstrates students have participated in learning opportunities. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

Under Ohio Rev. Code Section 3314.08, ODE may also perform a FTE Review subsequent to the fiscal year end that may result in an additional adjustment to the enrollment information as well as claw backs of Foundation funding due to a lack of evidence to support student participation and other matters of noncompliance. As of the date of this report, ODE has not performed an FTE Review on the School for fiscal year 2018.

As of the date of this report, additional ODE adjustments for fiscal year 2018 have been completed.

In addition, the School's contracts with their Sponsor and Management Company require payment based on revenues received from the State. As discussed above, all ODE adjustments through fiscal year 2018 have been completed. A reconciliation between payments previously made and the FTE adjustments has taken place with these contracts.

14. OPERATING LEASE

Canton Harbor High School (the "Lessee") has an operating lease with J. R. Coleman Senior Outreach Services, Inc., Canton, Ohio (the "Lessor") for a facility for educational purposes. The School signed a new lease for a five-year period commencing on July 1, 2016 and ending on June 30, 2021. An amendment to rent additional classroom space was signed in November of 2018. Payments for the operating lease of the building in fiscal year 2018 amounted to \$73,182.

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The base rent shall be \$7,094 per month beginning July 1, 2018 through June 30, 2019. Effective July 1, 2019 through June 30, 2021 the monthly rent will increase to \$7,307. Additionally, the School has the right of first refusal to rent any additional space prior to such space being rented to another tenant by the Landlord and the School has the right of first refusal to purchase the building prior to a sale to any other potential buyer.

The School also has the right to renew the lease for five additional years beginning July 1, 2021 through June 30, 2026. From July 1, 2021 through June 30, 2024 the base rent would be \$7,526 per month and from July 1, 2024 through June 30, 2026 it would increase to \$7,752 per month.

The School shall notify landlord of its intention to renew for an additional term at least 180 days prior to the end of the original lease term. If the School is notified that it has lost its charter to operate a public school in Ohio after having given notice of the School's intent to renew the lease but before the termination of the lease, the lease will not be renewed and will terminate on June 30, 2021, provided the School gives the landlord notice of losing its charter as soon as possible.

The future minimum payments for this lease is as follows:

Fiscal Year ending June 30:	
2019	\$ 85,128
2020	87,684
2021	87,684
2022	90,312
2023	90,312
2024-2026	276,360

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Canton Harbor High School
Stark County, Ohio
Required Supplementary Information
Schedule of the School's Proportionate Share of the Net Pension Liability
Last Five Fiscal Years (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<i>School Employees Retirement System (SERS)</i>					
School's Proportion of the Net Pension Liability	0.00678680%	0.00638240%	0.00569240%	0.00471700%	0.00471700%
School's Proportionate Share of the Net Pension Liability	\$ 405,496	\$ 467,133	\$ 324,814	\$ 238,725	\$ 280,505
School's Covered Payroll	\$ 227,664	\$ 196,586	\$ 171,373	\$ 129,553	\$ 122,370
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	178.11%	237.62%	189.54%	184.27%	229.23%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%
<i>State Teachers Retirement System (STRS)</i>					
School's Proportion of the Net Pension Liability	0.00324220%	0.00254066%	0.00221045%	0.00265588%	0.00265588%
School's Proportionate Share of the Net Pension Liability	\$ 770,192	\$ 850,435	\$ 610,904	\$ 646,002	\$ 769,513
School's Covered Payroll	\$ 381,079	\$ 263,229	\$ 233,007	\$ 273,092	\$ 285,715
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	202.11%	323.08%	262.18%	236.55%	269.33%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

Canton Harbor High School
Stark County, Ohio
Required Supplementary Information
Schedule of the School's Contributions - Pension
Last Ten Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>School Employees Retirement System (SERS)</i>				
Contractually Required Contribution	\$ 33,751	\$ 31,873	\$ 27,522	\$ 22,587
Contributions in Relation to the Contractually Required Contribution	<u>(33,751)</u>	<u>(31,873)</u>	<u>(27,522)</u>	<u>(22,587)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School's Covered Payroll	\$ 250,007	\$ 227,664	\$ 196,586	\$ 171,373
Pension Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%
<i>State Teachers Retirement System (STRS)</i>				
Contractually Required Contribution	\$ 54,991	\$ 53,351	\$ 36,852	\$ 32,621
Contributions in Relation to the Contractually Required Contribution	<u>(54,991)</u>	<u>(53,351)</u>	<u>(36,852)</u>	<u>(32,621)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School's Covered Payroll	\$ 392,793	\$ 381,079	\$ 263,229	\$ 233,007
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%

See accompanying notes to the required supplementary information.

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 17,956	\$ 16,936	\$ 12,559	\$ 13,201	\$ 11,416	\$ 13,123
<u>(17,956)</u>	<u>(16,936)</u>	<u>(12,559)</u>	<u>(13,201)</u>	<u>(11,416)</u>	<u>(13,123)</u>
<u>\$ 0</u>					
\$ 129,553	\$ 122,370	\$ 93,375	\$ 105,020	\$ 84,313	\$ 133,364
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%
\$ 35,502	\$ 37,143	\$ 40,772	\$ 38,966	\$ 35,790	\$ 43,279
<u>(35,502)</u>	<u>(37,143)</u>	<u>(40,772)</u>	<u>(38,966)</u>	<u>(35,790)</u>	<u>(43,279)</u>
<u>\$ 0</u>					
\$ 273,092	\$ 285,715	\$ 313,631	\$ 299,738	\$ 275,308	\$ 332,915
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

Canton Harbor High School
Stark County, Ohio
Required Supplementary Information
Schedule of the School's Proportionate Share of the Net OPEB Liability
Last Two Fiscal Years (1)

	<u>2018</u>	<u>2017</u>
<i>School Employees Retirement System (SERS)</i>		
School's Proportion of the Net OPEB Liability	0.00625850%	0.00583642%
School's Proportionate Share of the Net OPEB Liability	\$ 167,962	\$ 166,360
School's Covered Payroll	\$ 227,664	\$ 196,586
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	73.78%	84.62%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%
<i>State Teachers Retirement System (STRS)</i>		
School's Proportion of the Net OPEB Liability	0.00324220%	0.00254066%
School's Proportionate Share of the Net OPEB Liability	\$ 126,499	\$ 135,875
School's Covered Payroll	\$ 381,079	\$ 263,229
School's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	33.19%	51.62%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

See accompanying notes to the required supplementary information.

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Canton Harbor High School
Stark County, Ohio
Required Supplementary Information
Schedule of the School's Contributions - OPEB
Last Ten Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>School Employees Retirement System (SERS)</i>				
Contractually Required Contribution (1)	\$ 1,333	\$ 504	\$ 244	\$ 1,307
Contributions in Relation to the Contractually Required Contribution	<u>(1,333)</u>	<u>(504)</u>	<u>(244)</u>	<u>(1,307)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School's Covered Payroll	\$ 250,007	\$ 227,664	\$ 196,586	\$ 171,373
OPEB Contributions as a Percentage of Covered Payroll (1)	0.53%	0.22%	0.12%	0.76%
<i>State Teachers Retirement System (STRS)</i>				
Contractually Required Contribution	\$ 0	\$ 0	\$ 0	\$ 0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School's Covered Payroll	\$ 392,793	\$ 381,079	\$ 263,229	\$ 233,007
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%

(1) Includes surcharge

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 192	\$ 201	\$ 0	\$ 0	\$ 1,090	\$ 7,089
<u>(192)</u>	<u>(201)</u>	<u>0</u>	<u>0</u>	<u>(1,090)</u>	<u>(7,089)</u>
<u>\$ 0</u>					
\$ 129,553	\$ 122,370	\$ 93,375	\$ 105,020	\$ 84,313	\$ 133,364
0.15%	0.16%	0.00%	0.00%	1.29%	5.32%
\$ 2,731	\$ 2,852	\$ 3,136	\$ 2,997	\$ 2,753	\$ 3,329
<u>(2,731)</u>	<u>(2,852)</u>	<u>(3,136)</u>	<u>(2,997)</u>	<u>(2,753)</u>	<u>(3,329)</u>
<u>\$ 0</u>					
\$ 273,092	\$ 285,175	\$ 313,631	\$ 299,738	\$ 275,308	\$ 332,915
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

CANTON HARBOR HIGH SCHOOL
STARK COUNTY, OHIO
Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

Note 1 - Net Pension Liability

Changes in Assumptions - SERS

For fiscal year 2017, the SERS Board adopted the following assumption changes:

- Assumed rate of inflation was reduced from 3.25 percent to 3.00 percent
- Payroll Growth Assumption was reduced from 4.00 percent to 3.50 percent
- Assumed real wage growth was reduced from 0.75 percent to 0.50 percent
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to the following:
 - RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females.
- Mortality among service retired members, and beneficiaries was updated to the following:
 - RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates.
- Mortality among disable members was updated to the following:
 - 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.

Changes in Benefit Terms - SERS

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.50 percent with a floor of zero percent beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Changes in Assumptions – STRS

For fiscal year 2018, the Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Changes in Benefit Terms - STRS

Effective for fiscal year 2018, the cost-of-living adjustment (COLA) was reduced to zero.

CANTON HARBOR HIGH SCHOOL
STARK COUNTY, OHIO
Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

Note 2 - Net OPEB Liability

Changes in Assumptions – SERS

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:

Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent

Single Equivalent Interest Rate, net of plan investment expense, including price inflation

Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

Changes in Assumptions – STRS

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

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OHIO AUDITOR OF STATE KEITH FABER



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

Canton Harbor High School
Stark County
1731 Grace Avenue
Canton, Ohio 44705

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Canton Harbor High School, Stark County, (the School) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated May 31, 2019, wherein we noted the School adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the School'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 School'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 School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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



Keith Faber
Auditor of State

Columbus, Ohio

May 31, 2019

OHIO AUDITOR OF STATE KEITH FABER



CANTON HARBOR HIGH SCHOOL

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 13, 2019**