**NEW PHILADELPHIA CITY SCHOOL DISTRICT**
**TUSCARAWAS COUNTY**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2018**

OHIO AUDITOR OF STATE
**KEITH FABER**

**NEW PHILADELPHIA CITY SCHOOL DISTRICT**
**TUSCARAWAS COUNTY**
**JUNE 30, 2018**

## TABLE OF CONTENTS


| TITLE | PAGE |
|---|---|
| Independent Auditor's Report | 1 |
| Prepared by Management: | |
| Management's Discussion and Analysis | 5 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Position | 15 |
| Statement of Activities | 16 |
| Fund Financial Statements: | |
| Balance Sheet Governmental Funds | 18 |
| Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities | 19 |
| Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds | 20 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 21 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual General Fund | 22 |
| Statement of Fund Net Position Proprietary Fund | 23 |
| Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Fund | 24 |
| Statement of Cash Flows Proprietary Fund | 25 |
| Statement of Fiduciary Net Position Fiduciary Funds | 26 |
| Statement of Changes in Fiduciary Net Position Private Purpose Trust Fund | 27 |
| Notes to the Basic Financial Statements | 29 |

**NEW PHILADELPHIA CITY SCHOOL DISTRICT**
**TUSCARAWAS COUNTY**
**JUNE 30, 2018**

## TABLE OF CONTENTS
## (Continued)


| TITLE | PAGE |
|---|---|
| Required Supplementary Information: | |
| Schedule of the School District's Proportionate Share of the Net Pension Liability (SERS) | 78 |
| Schedule of the School District's Proportionate Share of the Net OPEB Liability (SERS) | 79 |
| Schedule of the School District's Proportionate Share of the Net Pension Liability (STRS) | 80 |
| Schedule of the School District's Proportionate Share of the Net OPEB Liability (STRS) | 81 |
| Schedule of the School District's Contributions (SERS) | 82 |
| Schedule of the School District's Contributions (STRS) | 84 |
| Notes to the Required Supplementary Information | 86 |
| Schedule of Expenditures of Federal Awards | 89 |
| Notes to the Schedule of Expenditures of Federal Awards | 91 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards* | 93 |
| Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance | 95 |
| Schedule of Findings | 97 |

OHIO AUDITOR OF STATE
KEITH FABER

**INDEPENDENT AUDITOR'S REPORT**

New Philadelphia City School District
Tuscarawas County
248 Front Avenue, SW
New Philadelphia, Ohio 44663

To the Board of Education:

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of the New Philadelphia City School District, Tuscarawas County, Ohio (the School District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the Table of Contents.

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

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

***Auditor's Responsibility***

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

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of the New Philadelphia City School District, Tuscarawas County, Ohio, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As discussed in Note 3 to the financial statements, during the year ended June 30, 2018, the School District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

Additionally, as discussed in Note 25 to the financial statements, the Quaker Digital Academy's (the Academy's), the discretely presented component unit, foundation funding is based on annualized full-time equivalent (FTE) enrollment of each student. During a FTE review for fiscal year 2016, the Ohio Department of Education (ODE) found the Academy had a FTE of zero. As of the opinion date, an agreement has been reached between the Academy and ODE which determined the Academy was overpaid $1,991,850. This will be paid back to ODE over a six year period and has been recorded as a liability on the financial statements. 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.

*Supplementary and Other Information*

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2019, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Keith Faber
Auditor of State
Columbus, Ohio

March 8, 2019

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It is a privilege to present to you the financial picture of the New Philadelphia City School District (the "School District"). This discussion and analysis of the School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance. The financial statements of the component unit are issued as a separate report and are available by contacting the Quaker Digital Academy (the "Academy").

## Financial Highlights

Key financial highlights for the 2018 fiscal year are as follows:

- The increase in net position was mainly due to decreases in the net pension liability and the net OPEB liability. These decreases primarily resulted from changes in assumptions and benefit terms related to pensions. STRS adopted certain assumption changes, including a reduction in their discount rate, and also voted to suspend cost of living adjustments (COLA). SERS decreased their COLA assumption.

- In November 2017, the citizens of the School District passed a replacement tax of 0.8 mill along with an increase of 0.2 mill for a total permanent improvement levy of 1.0 mill, which will begin collections in calendar year 2019. While this increased the property taxes receivable for the permanent improvement levy, the increase was offset by the decrease in property taxes receivable related to the bond retirement levy, which had its final collection in calendar 2017.

- In fiscal year 2018, the School District issued $420,000 in school improvement bonds for the purpose of acquiring and installing boilers at the high school.

## Using this Financial Report

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

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

## Notes to the Basic Financial Statements

The notes provide additional information that is essential to the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 29-76 of this report.

## Reporting the School District as a Whole

*Statement of Net Position and the Statement of Activities*

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

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

In the statement of net position and the statement of activities, all of the School District's activities are classified as governmental. The School District's programs and services reported here include instruction, support services, operation of food services, operation of non-instructional services, extracurricular activities and interest and fiscal charges.

## Reporting the School District's Most Significant Funds

*Fund Financial Statements*

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

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

***Proprietary Funds*** The School District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District's internal service fund accounts for a health insurance program, which provides medical benefits to employees. This fund uses the accrual basis of accounting.

***Fiduciary Funds*** Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the School District's programs. These funds use the accrual basis of accounting.

**The School District as a Whole**

You may recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a comparison of the School District's net position for fiscal year 2018 compared to 2017:

**Table 1**
*Net Position*

| | Governmental Activites | | |
|---|---|---|---|
| | 2018 | 2017 | Change |
| **Assets** | | | |
| Current and Other Assets | $23,865,324 | $25,184,726 | ($1,319,402) |
| Capital Assets, Net | 12,698,630 | 12,571,457 | 127,173 |
| *Total Assets* | 36,563,954 | 37,756,183 | (1,192,229) |
| **Deferred Outflows of Resources** | | | |
| Pension | 11,851,071 | 10,219,111 | 1,631,960 |
| OPEB | 369,388 | 59,866 | 309,522 |
| *Total Deferred Outflows of Resources* | 12,220,459 | 10,278,977 | 1,941,482 |
| **Liabilities** | | | |
| Current Liabilities | 3,896,140 | 4,218,331 | (322,191) |
| Long-Term Liabilities: | | | |
| Due Within One Year | 457,286 | 966,941 | (509,655) |
| Due in More Than One Year: | | | |
| Net Pension Liability | 36,604,128 | 50,533,632 | (13,929,504) |
| Net OPEB Liability | 7,928,181 | 9,963,628 | (2,035,447) |
| Other Amounts | 2,274,294 | 2,031,524 | 242,770 |
| *Total Liabilities* | 51,160,029 | 67,714,056 | (16,554,027) |
| **Deferred Inflows of Resources** | | | |
| Property Taxes | 13,367,729 | 12,649,998 | 717,731 |
| Payments in Lieu of Taxes | 0 | 67,397 | (67,397) |
| Pension | 1,539,926 | 227,065 | 1,312,861 |
| OPEB | 928,726 | 0 | 928,726 |
| *Total Deferred Inflows of Resources* | 15,836,381 | 12,944,460 | 2,891,921 |
| **Net Position** | | | |
| Net Investment in Capital Assets | 12,140,197 | 11,045,963 | 1,094,234 |
| Restricted | 1,355,046 | 2,071,063 | (716,017) |
| Unrestricted (Deficit) | (31,707,240) | (45,740,382) | 14,033,142 |
| *Total Net Position* | ($18,211,997) | ($32,623,356) | $14,411,359 |

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

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

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

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

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

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

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained previously, 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 District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the School District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from ($22,719,594) to ($32,623,356).

By comparing assets, deferred outflows of resources, liabilities, and deferred inflows of resources one can see the overall position of the School District has improved as evidenced by the increase in net position. Unrestricted net position primarily contributed to this increase as a result of decreases in the net pension liability and the net OPEB liability.

Current assets decreased mainly due to a decrease in equity in pooled cash and cash equivalents, as well as a decrease in property taxes receivable. The decrease in equity in pooled cash and cash equivalents was primarily due to increases in expenditures for regular and special instruction and for board of education, administration, and operation and maintenance of plant and equipment support services. The increases in expenditures were mainly due to base salary increases and step increases and increased legal counsel. A significant reduction in delinquent property taxes due to the write-off of uncollectible property taxes primarily contributed to the decrease in property taxes receivable. In November 2017, the citizens of the School District passed a replacement tax of 0.8 mill along with an increase of 0.2 mill for a total permanent improvement levy of 1.0 mill, which will begin collections in calendar year 2019. While this increased the property taxes receivable for the permanent improvement levy, the increase was offset by the decrease in property taxes receivable related to the bond retirement levy, which had its final collection in calendar 2017.

Current liabilities decreased mainly due to a decrease in contracts payable related to field turf in fiscal year 2017. Long-term liabilities decreased mainly due to significant decreases in the net pension liability and the net OPEB liability. The net pension liability and net OPEB liability decreases represent the School District's proportionate share of the unfunded benefits of the SERS and STRS pension and OPEB plans. As indicated previously, changes in pension and OPEB benefits, contribution rates, and return on investments affect the balance of these liabilities. Long-term liabilities due within one year decreased as the School District continued to pay down long-term debt.

Table 2 shows the changes in net position for fiscal year 2018 compared to fiscal year 2017.

**Table 2**
Change in Net Position
Governmental Activities

| | 2018 | 2017 | Change |
|---|---|---|---|
| **Revenues** | | | |
| ***Program Revenues*** | | | |
| Charges for Services | $2,612,966 | $2,874,166 | ($261,200) |
| Operating Grants, | | | |
| Contributions, and Interest | 4,117,401 | 4,276,889 | (159,488) |
| Capital Grants and Contributions | 103,250 | 12,600 | 90,650 |
| *Total Program Revenues* | 6,833,617 | 7,163,655 | (330,038) |
| ***General Revenues*** | | | |
| Property Taxes | 13,853,671 | 15,159,485 | (1,305,814) |
| Payments in Lieu of Taxes | 67,236 | 69,130 | (1,894) |
| Grants and Entitlements | 13,444,323 | 13,107,106 | 337,217 |
| Investment Earnings | 75,298 | 30,038 | 45,260 |
| Miscellaneous | 567,479 | 385,242 | 182,237 |
| *Total General Revenues* | 28,008,007 | 28,751,001 | (742,994) |
| Total Revenues | 34,841,624 | 35,914,656 | (1,073,032) |
| ***Program Expenses*** | | | |
| Instruction: | | | |
| Regular | 7,006,769 | 16,075,398 | (9,068,629) |
| Special | 3,352,050 | 6,644,572 | (3,292,522) |
| Vocational | 7,957 | 211,697 | (203,740) |
| Support Services: | | | |
| Pupil | 737,412 | 1,854,991 | (1,117,579) |
| Instructional Staff | 322,122 | 522,518 | (200,396) |
| Board of Education | 173,484 | 114,932 | 58,552 |
| Administration | 1,725,583 | 2,950,788 | (1,225,205) |
| Fiscal | 736,711 | 803,238 | (66,527) |
| Business | 497 | 1,800 | (1,303) |
| Operation and Maintenance of Plant | 2,569,049 | 2,771,016 | (201,967) |
| Pupil Transportation | 862,589 | 989,746 | (127,157) |
| Central | 78,993 | 73,334 | 5,659 |
| Operation of Food Services | 799,375 | 923,652 | (124,277) |
| Operation of Non-Instructional Services | 926,196 | 1,470,899 | (544,703) |
| Extracurricular Activities | 1,112,453 | 1,438,524 | (326,071) |
| Interest and Fiscal Charges | 19,025 | 32,857 | (13,832) |
| *Total Program Expenses* | 20,430,265 | 36,879,962 | (16,449,697) |
| Change in Net Position | 14,411,359 | (965,306) | 15,376,665 |
| Net Position Beginning of Year | (32,623,356) | N/A | |
| Net Position End of Year | ($18,211,997) | ($32,623,356) | $14,411,359 |

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 $59,866 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 report negative OPEB expense of $1,331,397. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

| | |
|---|---:|
| Total 2018 program expenses under GASB 75 | $20,430,265 |
| Negative OPEB expense under GASB 75 | 1,331,397 |
| 2018 contractually required contribution | 84,846 |
| Adjusted 2018 program expenses | 21,846,508 |
| Total 2017 program expenses under GASB 45 | 36,879,962 |
| Decrease in program expenses not related to OPEB | ($15,033,454) |

The largest component of the decrease in program expenses results from changes in assumptions and benefit terms related to pensions. STRS adopted certain assumption changes, including a reduction in their discount rate, and also voted to suspend cost of living adjustments (COLA). SERS decreased their COLA assumption. (See Note 13.) As a result of these changes, pension expense decreased from $4,221,065 in fiscal year 2017 to a negative pension expense of $11,629,552 for fiscal year 2018. The allocation of the fiscal year 2018 negative pension expense to program expenses is as follows:

| **Program Expenses** | Fiscal Year 2018 Program Expenses Related to Negative Pension Expense |
|---|---:|
| Instruction: | |
| Regular | ($6,581,835) |
| Special | (2,469,489) |
| Vocational | (51,011) |
| Support Services: | |
| Pupils | (793,171) |
| Instructional Staff | (50,419) |
| Board of Education | (28) |
| Administration | (1,025,792) |
| Fiscal | (13,101) |
| Operation and Maintenance of Plant | (60,365) |
| Pupil Transportation | (32,709) |
| Operation of Food Services | (17,324) |
| Operation of Non-Instructional Services | (227,172) |
| Extracurricular Activities | (307,136) |
| Total Expenses | ($11,629,552) |

## Governmental Activities

General revenues accounted for the majority of all revenues. Specific program revenues in the form of charges for services, operating grants, contributions, and interest, and capital grants and contributions accounted for the remaining portion of total revenues.

Several revenue sources fund governmental activities, with property taxes being the largest contributor. The last increase in property tax levies by the citizens of the School District was in November 2017, when they passed a replacement and increase permanent improvement levy of 1.0 mill, which will begin collections in calendar year 2019. Property tax revenues decreased from the prior fiscal year mainly due to decreases in the amount available as an advance and delinquent taxes. There was a significant reduction in delinquent taxes for fiscal year 2018 due to the write-off of uncollectable taxes. Grants and entitlements, with the majority coming from the school Foundation program, is the other significant revenue contributor. With the combination of taxes and grants and entitlements funding the significant portion of all expenses in governmental activities, the School District monitors both of these revenue sources very closely for fluctuations. Although property taxes decreased from the prior fiscal year as discussed, grants and entitlements increased slightly due to increases in Foundation funding resulting from an increase in average daily membership (ADM) and an increase in targeted assistance.

Instruction composes the most significant portion of governmental program expenses. The decrease in total expenses from the prior fiscal year is mainly due to the large decrease in pension expense discussed previously.

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

**Table 3**
Total and Net Cost of Program Services
Governmental Activities

| | Total Cost of Services 2018 | Net Cost of Services 2018 | Total Cost of Services 2017 | Net Cost of Services 2017 |
|---|---|---|---|---|
| **Program Expenses** | | | | |
| Instruction: | | | | |
| Regular | $7,006,769 | $5,612,700 | $16,075,398 | $14,552,591 |
| Special | 3,352,050 | 582,981 | 6,644,572 | 3,756,886 |
| Vocational | 7,957 | (45,871) | 211,697 | 160,257 |
| Support Services: | | | | |
| Pupil | 737,412 | 736,021 | 1,854,991 | 1,854,991 |
| Instructional Staff | 322,122 | 305,960 | 522,518 | 509,918 |
| Board of Education | 173,484 | 173,484 | 114,932 | 114,932 |
| Administration | 1,725,583 | 1,583,266 | 2,950,788 | 2,772,747 |
| Fiscal | 736,711 | 736,711 | 803,238 | 803,238 |
| Business | 497 | 497 | 1,800 | 1,800 |
| Operation and Maintenance of Plant | 2,569,049 | 2,358,908 | 2,771,016 | 2,533,168 |
| Pupil Transportation | 862,589 | 749,646 | 989,746 | 873,249 |
| Central | 78,993 | 78,993 | 73,334 | 73,334 |
| Operation of Food Services | 799,375 | (83,969) | 923,652 | 13,181 |
| Operation of Non-Instructional Services | 926,196 | 507,881 | 1,470,899 | 1,020,892 |
| Extracurricular Activities | 1,112,453 | 280,415 | 1,438,524 | 642,266 |
| Interest and Fiscal Charges | 19,025 | 19,025 | 32,857 | 32,857 |
| *Total* | $20,430,265 | $13,596,648 | $36,879,962 | $29,716,307 |

The dependence upon general revenues for governmental activities is apparent, the majority of expenses supported through property taxes, grants and entitlements, and other general revenues.

## The School District's Funds

Information about the School District's major fund starts on page 18. These funds are accounted for using the modified accrual basis of accounting. Total governmental funds had a decrease in fund balance for fiscal year 2018 due to a decrease in revenues and an increase in expenditures. The decrease in revenues was primarily due to a decrease in property taxes related to a decrease in the amount available as an advance at fiscal year end. The increase in expenditures was mainly related to increases in regular and special instruction and administration and operation and maintenance of plant support services due to increases in salaries and the corresponding benefits. These changes were partly offset by an increase in other financing sources due to the issuance of school improvement bonds during fiscal year 2018. The general fund also had a decrease in fund balance for fiscal year 2018 due to a small decrease in revenues, mainly property taxes, and a larger increase in expenditures, primarily instruction. This overall decrease indicates the School District's current revenue base is not able to meet the School District's obligations as a whole. The School District understands that it needs to continue to monitor expenditures to ensure it can meet future needs.

### *Budgeting Highlights*

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

During the course of fiscal year 2018, the School District amended its general fund budget a few times. Requests for budget changes are made by the building administrators. Final approval is obtained from the Treasurer and Superintendent and is presented to the Board of Education for their adoption.

For the general fund, original budgeted revenue and other financing sources were lower than final budgeted revenue and other financing sources. Actual revenue and other financing sources came in a little lower than the final budget estimate.

Original budgeted expenditures and other financing uses were lower than final budgeted expenditures and other financing uses. Actual expenditures and other financing uses were only slightly more than final budgeted expenditures and other financing uses due to encumbrances.

The School District's ending unobligated budgetary fund balance was lower than the final budgeted amount.

## Capital Assets and Debt Administration

### *Capital Assets*

Capital assets net of depreciation increased overall, with significant additions during fiscal year 2018. Construction in progress includes modular classrooms at the West Elementary and South Elementary schools and the boiler project at the high school. Some of the other asset additions included roof improvements, bleachers and buses.

The School District's capitalization threshold for capital assets was set at $500. For additional information on capital assets, see Note 11 to the basic financial statements.

***Debt Administration***

In 1992 the School District passed a 3.1 mill bond issue, providing $8.8 million for facility improvements for the high school, including the addition of 24 classrooms. The School District refinanced that debt in June 2004 and again in September of 2013. The 2013 bonds were fully retired during fiscal year 2018.

In March of 2014, the School District refinanced the HB264 capital lease project and issued school improvement bonds.

In June 2018, the School District issued $420,000 in school improvement bonds for the purpose of acquiring and installing boilers at the high school.

At June 30, 2018, the School District's overall legal debt margin was $41,297,002 with an unvoted debt margin of $466,875.

For additional information on long-term obligations, see Notes 15 and 16 to the basic financial statements.

**Challenges and Opportunities**

The New Philadelphia City School District is still strong financially. As the preceding information shows, the School District heavily depends on its property taxpayers. The taxpayers approved an additional 7.1 mill levy in May 2014.

State law fixes the amount of tax revenue, forcing it to remain constant except for new valuations in the School District. Management must plan expenses accordingly, staying within the School District's five-year plan.

Externally, the State of Ohio was found by the Ohio Supreme Court in March, 1997, to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On December 11, 2002, the Supreme Court issued its latest opinion regarding the school funding plan which upheld its earlier decision.

The New Philadelphia City School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the court, the State may require redistribution of commercial and industrial property tax. This could have a significant impact on the School District's residential taxpayers.

Both scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years and to grow even more dependent on local tax revenue.

In conclusion, the School District's system of budgeting and internal controls are well-regarded, and it will take all of the School District's financial abilities to meet the challenges of the future.

**Contacting the School District's Financial Management Personnel**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Julie Erwin, Treasurer, at New Philadelphia City School District, 248 Front Avenue SW, New Philadelphia, Ohio 44663 or email at erwinj@npschools.org.

## New Philadelphia City School District

*Statement of Net Position*

*June 30, 2018*

| | Primary Government | Component Unit |
|---|---|---|
| | Governmental Activities | Quaker Digital Academy |
| **Assets** | | |
| Equity in Pooled Cash and Cash Equivalents | $7,584,903 | $6,282,209 |
| Accounts Receivable | 8,260 | 0 |
| Intergovernmental Receivable | 1,121,645 | 66,992 |
| Prepaid Items | 56,533 | 33,511 |
| Materials and Supplies Inventory | 1,787 | 0 |
| Inventory Held for Resale | 7,853 | 0 |
| Property Taxes Receivable | 15,017,107 | 0 |
| Payments in Lieu of Taxes Receivable | 67,236 | 0 |
| Nondepreciable Capital Assets | 1,102,742 | 0 |
| Depreciable Capital Assets, Net | 11,595,888 | 486,464 |
| *Total Assets* | 36,563,954 | 6,869,176 |
| **Deferred Outflows of Resources** | | |
| Pension | 11,851,071 | 1,610,717 |
| OPEB | 369,388 | 99,454 |
| *Total Deferred Outflows of Resources* | 12,220,459 | 1,710,171 |
| **Liabilities** | | |
| Accounts Payable | 153,121 | 24,007 |
| Contracts Payable | 121,878 | 0 |
| Accrued Wages and Benefits Payable | 2,931,993 | 108,039 |
| Intergovernmental Payable | 640,445 | 1,045,745 |
| Matured Compensated Absences Payable | 46,862 | 0 |
| Accrued Interest Payable | 1,841 | 0 |
| Long-Term Liabilities: | | |
| Due Within One Year | 457,286 | 494,048 |
| Due in More Than One Year: | | |
| Net Pension Liability (See Note 13) | 36,604,128 | 3,945,225 |
| Net OPEB Liability (See Note 14) | 7,928,181 | 895,134 |
| Other Amounts Due in More Than One Year | 2,274,294 | 2,515,735 |
| *Total Liabilities* | 51,160,029 | 9,027,933 |
| **Deferred Inflows of Resources** | | |
| Property Taxes | 13,367,729 | 0 |
| Pension | 1,539,926 | 134,989 |
| OPEB | 928,726 | 100,364 |
| *Total Deferred Inflows of Resources* | 15,836,381 | 235,353 |
| **Net Position** | | |
| Net Investment in Capital Assets | 12,140,197 | 486,464 |
| Restricted for: | | |
| Food Service Operations | 334,497 | 0 |
| Special Education | 282,436 | 0 |
| Student Instruction | 259,715 | 0 |
| Juvenile Attention Center | 151,824 | 0 |
| Athletics | 129,981 | 0 |
| Community Involvement | 38,511 | 0 |
| Debt Service | 31,390 | 0 |
| Capital Projects | 96,961 | 0 |
| Other Purposes | 29,731 | 25,725 |
| Unrestricted (Deficit) | (31,707,240) | (1,196,128) |
| *Total Net Position* | ($18,211,997) | ($683,939) |

See accompanying notes to the basic financial statements

**New Philadelphia City School District**
*Statement of Activities*
*For the Fiscal Year Ended June 30, 2018*

| | | Program Revenues | | |
|---|---|---|---|---|
| | Expenses | Charges for Services | Operating Grant, Contributions, and Interest | Capital Grants and Contributions |
| **Governmental Activities** | | | | |
| Instruction: | | | | |
| Regular | $7,006,769 | $1,146,622 | $226,597 | $20,850 |
| Special | 3,352,050 | 0 | 2,769,069 | 0 |
| Vocational | 7,957 | 0 | 53,828 | 0 |
| Support Services: | | | | |
| Pupil | 737,412 | 0 | 1,391 | 0 |
| Instructional Staff | 322,122 | 0 | 3,562 | 12,600 |
| Board of Education | 173,484 | 0 | 0 | 0 |
| Administration | 1,725,583 | 0 | 142,317 | 0 |
| Fiscal | 736,711 | 0 | 0 | 0 |
| Business | 497 | 0 | 0 | 0 |
| Operation and Maintenance of Plant | 2,569,049 | 210,141 | 0 | 0 |
| Pupil Transportation | 862,589 | 77,883 | 35,060 | 0 |
| Central | 78,993 | 0 | 0 | 0 |
| Operation of Food Services | 799,375 | 220,137 | 663,207 | 0 |
| Operation of Non-Instructional Services | 926,196 | 285,086 | 133,229 | 0 |
| Extracurricular Activities | 1,112,453 | 673,097 | 89,141 | 69,800 |
| Interest and Fiscal Charges | 19,025 | 0 | 0 | 0 |
| *Total Governmental Activities* | $20,430,265 | $2,612,966 | $4,117,401 | $103,250 |
| **Component Unit** | | | | |
| Quaker Digital Academy | $4,738,613 | $11,385 | $418,654 | $0 |

**General Revenues**
Property Taxes Levied for:
General Purposes
Debt Service
Capital Outlay
Payments in Lieu of Taxes
Grants and Entitlements not Restricted to Specific Programs
Investment Earnings
Miscellaneous

*Total General Revenues*

Change in Net Position

*Net Position Beginning of Year - Restated (See Note 3)*

*Net Position End of Year*

See accompanying notes to the basic financial statements

| Net (Expense) Revenue and Changes in Net Position | |
|---|---|
| Primary Government | Component Unit |
| Governmental Activities | Quaker Digital Academy |
| | |
| ($5,612,700) | $0 |
| (582,981) | 0 |
| 45,871 | 0 |
| | |
| (736,021) | 0 |
| (305,960) | 0 |
| (173,484) | 0 |
| (1,583,266) | 0 |
| (736,711) | 0 |
| (497) | 0 |
| (2,358,908) | 0 |
| (749,646) | 0 |
| (78,993) | 0 |
| 83,969 | 0 |
| (507,881) | 0 |
| (280,415) | 0 |
| (19,025) | 0 |
| (13,596,648) | 0 |
| | |
| 0 | (4,308,574) |
| | |
| 13,571,651 | 0 |
| 130,679 | 0 |
| 151,341 | 0 |
| 67,236 | 0 |
| 13,444,323 | 3,344,448 |
| 75,298 | 38,858 |
| 567,479 | 19,281 |
| 28,008,007 | 3,402,587 |
| 14,411,359 | (905,987) |
| (32,623,356) | 222,048 |
| ($18,211,997) | ($683,939) |

**New Philadelphia City School Distric**
*Balance Sheet*
*Governmental Funds*
*June 30, 2018*

| | General | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| **Assets** | | | |
| Equity in Pooled Cash and Cash Equivalents | $5,415,189 | $1,762,784 | $7,177,973 |
| Accounts Receivable | 2,445 | 5,815 | 8,260 |
| Intergovernmental Receivable | 569,523 | 377,540 | 947,063 |
| Interfund Receivable | 26,232 | 0 | 26,232 |
| Prepaid Items | 51,926 | 4,607 | 56,533 |
| Materials and Supplies Inventory | 0 | 1,787 | 1,787 |
| Inventory Held for Resale | 0 | 7,853 | 7,853 |
| Property Taxes Receivable | 14,724,943 | 292,164 | 15,017,107 |
| Payments in Lieu of Taxes Receivable | 67,236 | 0 | 67,236 |
| *Total Assets* | $20,857,494 | $2,452,550 | $23,310,044 |
| **Liabilities** | | | |
| Accounts Payable | $115,527 | $37,594 | $153,121 |
| Contracts Payable | 8,130 | 113,748 | 121,878 |
| Accrued Wages and Benefits Payable | 2,698,837 | 233,156 | 2,931,993 |
| Intergovernmental Payable | 546,318 | 94,127 | 640,445 |
| Interfund Payable | 0 | 26,232 | 26,232 |
| Matured Compensated Absences Payable | 46,862 | 0 | 46,862 |
| *Total Liabilities* | 3,415,674 | 504,857 | 3,920,531 |
| **Deferred Inflows of Resources** | | | |
| Property Taxes | 13,093,534 | 274,195 | 13,367,729 |
| Unavailable Revenue | 288,542 | 195,495 | 484,037 |
| *Total Deferred Inflows of Resources* | 13,382,076 | 469,690 | 13,851,766 |
| **Fund Balances** | | | |
| Nonspendable | 51,926 | 6,394 | 58,320 |
| Restricted | 0 | 1,562,410 | 1,562,410 |
| Committed | 218,172 | 0 | 218,172 |
| Assigned | 136,153 | 0 | 136,153 |
| Unassigned (Deficit) | 3,653,493 | (90,801) | 3,562,692 |
| *Total Fund Balances* | 4,059,744 | 1,478,003 | 5,537,747 |
| *Total Liabilities, Deferred Inflows of Resources, and Fund Balances* | $20,857,494 | $2,452,550 | $23,310,044 |

See accompanying notes to the basic financial statements

**New Philadelphia City School District**

*Reconciliation of Total Governmental Fund Balances to*

*Net Position of Governmental Activities*

*June 30, 2018*

| | | |
|---|---|---|
| **Total Governmental Funds Balances** | | $5,537,747 |
| ***Amounts reported for governmental activities in the statement of net position are different because:*** | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 12,698,630 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds: | | |
| Delinquent Property Taxes | 290,483 | |
| Intergovernmental Grants | 191,060 | |
| Tuition and Fees | 1,033 | |
| Contributions and Donations | 1,200 | |
| Miscellaneous | 261 | |
| Total | | 484,037 |
| In the statement of activities, interest is accrued on outstanding bonds, whereas in the funds, an interest expenditure is reported when due. | | (1,841) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: | | |
| General Obligation Bonds | (755,000) | |
| Capital Leases | (92,186) | |
| Compensated Absences | (1,884,394) | |
| Total | | (2,731,580) |
| An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position. | | 581,512 |
| The net pension liability and net OPEB liability are not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds: | | |
| Deferred Outflows - Pension | 11,851,071 | |
| Deferred Outflows - OPEB | 369,388 | |
| Net Pension Liability | (36,604,128) | |
| Net OPEB Liability | (7,928,181) | |
| Deferred Inflows - Pension | (1,539,926) | |
| Deferred Inflows - OPEB | (928,726) | |
| Total | | (34,780,502) |
| *Net Position of Governmental Activities* | | ($18,211,997) |

See accompanying notes to the basic financial statements

**New Philadelphia City School District**

*Statement of Revenues, Expenditures and Changes in Fund Balances*

*Governmental Funds*

*For the Fiscal Year Ended June 30, 2018*

| | General | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| **Revenues** | | | |
| Property Taxes | $13,983,236 | $289,672 | $14,272,908 |
| Payments in Lieu of Taxes | 67,236 | 0 | 67,236 |
| Intergovernmental | 14,811,552 | 2,602,661 | 17,414,213 |
| Interest | 74,843 | 3,234 | 78,077 |
| Tuition and Fees | 1,361,108 | 351,055 | 1,712,163 |
| Extracurricular Activities | 147,300 | 525,797 | 673,097 |
| Contributions and Donations | 0 | 211,947 | 211,947 |
| Charges for Services | 66 | 220,137 | 220,203 |
| Rentals | 6,470 | 0 | 6,470 |
| Miscellaneous | 543,157 | 24,061 | 567,218 |
| *Total Revenues* | 30,994,968 | 4,228,564 | 35,223,532 |
| **Expenditures** | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 14,971,889 | 324,837 | 15,296,726 |
| Special | 5,262,613 | 1,433,661 | 6,696,274 |
| Vocational | 81,914 | 0 | 81,914 |
| Support Services: | | | |
| Pupil | 1,793,715 | 1,407 | 1,795,122 |
| Instructional Staff | 392,577 | 5,229 | 397,806 |
| Board of Education | 173,571 | 0 | 173,571 |
| Administration | 2,909,876 | 155,010 | 3,064,886 |
| Fiscal | 768,775 | 0 | 768,775 |
| Business | 497 | 0 | 497 |
| Operation and Maintenance of Plant | 2,810,607 | 0 | 2,810,607 |
| Pupil Transportation | 1,089,411 | 5,734 | 1,095,145 |
| Central | 81,817 | 0 | 81,817 |
| Operation of Food Services | 0 | 847,951 | 847,951 |
| Operation of Non-Instructional Services | 867,439 | 355,943 | 1,223,382 |
| Extracurricular Activities | 751,511 | 659,421 | 1,410,932 |
| Capital Outlay | 0 | 431,450 | 431,450 |
| Debt Service: | | | |
| Principal Retirement | 70,639 | 631,441 | 702,080 |
| Interest and Fiscal Charges | 12,227 | 6,775 | 19,002 |
| Bond Issuance Costs | 10,260 | 0 | 10,260 |
| *Total Expenditures* | 32,049,338 | 4,858,859 | 36,908,197 |
| *Excess of Revenues Under Expenditures* | (1,054,370) | (630,295) | (1,684,665) |
| **Other Financing Sources (Uses)** | | | |
| Insurance Recoveries | 17,928 | 0 | 17,928 |
| General Obligation Bonds Issued | 0 | 420,000 | 420,000 |
| Transfers In | 0 | 137,558 | 137,558 |
| Transfers Out | (137,558) | 0 | (137,558) |
| *Total Other Financing Sources (Uses)* | (119,630) | 557,558 | 437,928 |
| *Net Change in Fund Balances* | (1,174,000) | (72,737) | (1,246,737) |
| *Fund Balances Beginning of Year* | 5,233,744 | 1,550,740 | 6,784,484 |
| *Fund Balances End of Year* | $4,059,744 | $1,478,003 | $5,537,747 |

See accompanying notes to the basic financial statements

**New Philadelphia City School District**

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

*For the Fiscal Year Ended June 30, 2018*

| | | |
|---|---|---|
| **Net Change in Fund Balances - Total Governmental Funds** | | ($1,246,737) |
| ***Amounts reported for governmental activities in the statement of activities are different because:*** | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay and contributions exceeded depreciation in the current period: | | |
| Capital Asset Additions: | | |
| Capital Outlay | 1,086,980 | |
| Capital Contributions | 20,850 | |
| Depreciation | (937,368) | |
| Total | | 170,462 |
| Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. | | (43,289) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds: | | |
| Property Taxes | (419,237) | |
| Intergovernmental | 13,985 | |
| Tuition and Fees | 1,033 | |
| Contributions and Donations | 1,200 | |
| Miscellaneous | 261 | |
| Total | | (402,758) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds: | | |
| Accrued Interest | (23) | |
| Compensated Absences | (15,195) | |
| Total | | (15,218) |
| Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position: | | |
| Payment on General Obligation Bonds | 675,000 | |
| Payment on Capital Leases | 27,080 | |
| Total | | 702,080 |
| The change in net position of the internal service fund is reported with governmental activities in the statement of activities. | | 1,973 |
| Other financing sources in the governmental funds, such as the issuance of general obligation bonds, that increase long-term liabilities in the statement of net position are not reported as revenues in the statement of activities. | | (420,000) |
| Contractually required contributions are reported as expenditures in the governmental funds; however, the statement of net position reports these amounts as deferred outflows: | | |
| Pension | 2,619,051 | |
| OPEB | 84,846 | |
| Total | | 2,703,897 |
| Except for amounts reported as deferred inflows/outflows, changes in the net pension/OPEB liability are reported as pension/OPEB expense in the statement of activities: | | |
| Pension | 11,629,552 | |
| OPEB | 1,331,397 | |
| Total | | 12,960,949 |
| *Change in Net Position of Governmental Activities* | | $14,411,359 |

See accompanying notes to the basic financial statements

**New Philadelphia City School District**
*Statement of Revenues, Expenditures and Changes*
*in Fund Balance - Budget (Non-GAAP Basis) and Actual*
*General Fund*
*For the Fiscal Year Ended June 30, 2018*

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual | |
| **Revenues** | | | | |
| Property Taxes | $14,394,416 | $14,669,483 | $14,669,409 | ($74) |
| Payments in Lieu of Taxes | 60,000 | 60,000 | 0 | (60,000) |
| Intergovernmental | 14,519,274 | 14,664,848 | 14,831,646 | 166,798 |
| Interest | 30,000 | 67,500 | 74,843 | 7,343 |
| Tuition and Fees | 1,539,850 | 1,618,208 | 1,381,227 | (236,981) |
| Charges for Services | 250 | 250 | 66 | (184) |
| Rentals | 7,700 | 7,700 | 5,598 | (2,102) |
| Miscellaneous | 390,077 | 346,960 | 278,037 | (68,923) |
| *Total Revenues* | 30,941,567 | 31,434,949 | 31,240,826 | (194,123) |
| **Expenditures** | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 15,236,274 | 15,023,097 | 15,023,097 | 0 |
| Special | 3,693,042 | 5,258,196 | 5,260,950 | (2,754) |
| Vocational | 147,444 | 99,503 | 99,503 | 0 |
| Support Services: | | | | |
| Pupil | 1,503,092 | 1,806,979 | 1,807,744 | (765) |
| Instructional Staff | 451,812 | 407,750 | 407,750 | 0 |
| Board of Education | 121,801 | 187,693 | 188,183 | (490) |
| Administration | 3,044,361 | 2,893,196 | 2,893,196 | 0 |
| Fiscal | 817,223 | 763,790 | 763,790 | 0 |
| Business | 3,000 | 497 | 497 | 0 |
| Operation and Maintenance of Plant | 2,730,324 | 2,856,315 | 2,856,864 | (549) |
| Pupil Transportation | 1,337,983 | 1,280,625 | 1,280,625 | 0 |
| Central | 90,000 | 74,100 | 74,100 | 0 |
| Operation of Non-Instructional Services | 850,200 | 867,439 | 867,439 | 0 |
| Extracurricular Activities | 556,732 | 595,671 | 595,963 | (292) |
| Debt Service: | | | | |
| Principal Retirement | 45,000 | 45,000 | 45,000 | 0 |
| Interest and Fiscal Charges | 6,000 | 8,006 | 8,021 | (15) |
| *Total Expenditures* | 30,634,288 | 32,167,857 | 32,172,722 | (4,865) |
| *Excess of Revenues Over (Under) Expenditures* | 307,279 | (732,908) | (931,896) | (198,988) |
| **Other Financing Sources (Uses)** | | | | |
| Insurance Recoveries | 0 | 18,194 | 17,928 | (266) |
| Advances In | 15,000 | 13,697 | 0 | (13,697) |
| Advances Out | (64,292) | (25,250) | (25,439) | (189) |
| Transfers Out | (100,000) | (137,279) | (137,558) | (279) |
| *Total Other Financing Sources (Uses)* | (149,292) | (130,638) | (145,069) | (14,431) |
| *Net Change in Fund Balance* | 157,987 | (863,546) | (1,076,965) | (213,419) |
| *Fund Balance Beginning of Year* | 5,889,446 | 5,889,446 | 5,889,446 | 0 |
| Prior Year Encumbrances Appropriated | 262,407 | 262,407 | 262,407 | 0 |
| *Fund Balance End of Year* | $6,309,840 | $5,288,307 | $5,074,888 | ($213,419) |

See accompanying notes to the basic financial statements

**New Philadelphia City School District**

*Statement of Fund Net Position*

*Proprietary Fund*

*June 30, 2018*

| | Governmental Activities - Internal Service |
|---|---|
| **Assets** | |
| *Current Assets:* | |
| Equity in Pooled Cash and Cash Equivalents | $406,930 |
| Intergovernmental Receivable | 174,582 |
| *Total Assets* | 581,512 |
| **Net Position** | |
| Unrestricted | $581,512 |

See accompanying notes to the basic financial statements

**New Philadelphia City School District**

*Statement of Revenues,*
*Expenses and Changes in Fund Net Position*
*Proprietary Fund*
*For the Fiscal Year Ended June 30, 2018*

| | Governmental Activities - Internal Service |
|---|---|
| **Operating Revenues** | |
| Charges for Services | $5,332,230 |
| **Operating Expenses** | |
| Fringe Benefits | 5,330,257 |
| *Change in Net Position* | 1,973 |
| *Net Position Beginning of Year* | 579,539 |
| *Net Position End of Year* | $581,512 |

See accompanying notes to the basic financial statements

**New Philadelphia City School District**

*Statement of Cash Flows*

*Proprietary Fund*

*For the Fiscal Year Ended June 30, 2018*

| | Governmental Activities - Internal Service |
|---|---|
| **Increase (Decrease) in Cash and Cash Equivalents** | |
| **Cash Flows from Operating Activities** | |
| Cash Received from Transactions with Other Funds | $5,157,648 |
| Cash Payments for Premiums | (5,331,107) |
| *Net Decrease in Cash and Cash Equivalents* | (173,459) |
| *Cash and Cash Equivalents Beginning of Year* | 580,389 |
| *Cash and Cash Equivalents End of Year* | $406,930 |
| **Reconciliation of Operating Income to Net Cash Used for Operating Activities** | |
| Operating Income | $1,973 |
| Adjustments: | |
| Increase in Intergovernmental Receivable | (174,582) |
| Decrease in Accounts Payable | (850) |
| *Net Cash Used for Operating Activities* | ($173,459) |

See accompanying notes to the basic financial statements

**New Philadelphia City School District**

*Statement of Fiduciary Net Position*

*Fiduciary Funds*

*June 30, 2018*

| | Private Purpose Trust | |
|---|---|---|
| | Scholarship | Agency |
| **Assets** | | |
| Equity in Pooled Cash and Cash Equivalents | $1,413,800 | $63,844 |
| **Liabilities** | | |
| Due to Students | 0 | $63,844 |
| **Net Position** | | |
| Held in Trust for Scholarships | $1,413,800 | |

See accompanying notes to the basic financial statements

**New Philadelphia City School District**

*Statement of Changes in Fiduciary Net Position*
*Private Purpose Trust Fund*
*For the Fiscal Year Ended June 30, 2018*

| | Private Purpose Trust |
|---|---|
| | Scholarship |
| **Additions** | |
| Contributions and Donations | $1,383 |
| Interest | 6,695 |
| *Total Additions* | 8,078 |
| **Deductions** | |
| Scholarships Awarded | 10,000 |
| *Change in Net Position* | (1,922) |
| *Net Position Beginning of Year* | 1,415,722 |
| *Net Position End of Year* | $1,413,800 |

See accompanying notes to the basic financial statements

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## Note 1 – Description of the School District and Reporting Entity

The New Philadelphia City School District (the "School District") operates under a locally-elected Board form of government and provides educational services as authorized by State statute and/or Federal guidelines. This Board controls the School District's 11 instruction/support facilities staffed by 136 non-certificated employees, 230 certificated full-time teaching personnel and 19 administrative employees who provide services to 3,200 students and other community members.

The School District was established in 1808, the first in the State of Ohio, and is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. Under such laws there is no authority for a School District to have a charter or adopt local laws. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at-large for staggered four-year terms.

The School District serves an area of approximately 72 square miles. It is located in Tuscarawas County, and includes all of the City of New Philadelphia, the Village of Stone Creek and portions of nine townships. The School District currently operates seven instructional buildings, an administration building, a warehouse building, a sports complex and a garage.

### *Reporting Entity*

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

> ***Nonpublic Schools*** Within the School District boundaries, Tuscarawas Central Catholic Junior and Senior High School is operated through the Columbus Catholic Diocese. Current State legislation provides funding to these nonpublic schools. These monies are received and disbursed on behalf of the nonpublic schools by the Treasurer of the School District, as directed by the nonpublic schools. These transactions are reported in a special revenue fund and as a governmental activity of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the School District.

The component unit columns in the financial statements identify the financial data of the School District's discretely presented component unit, the Quaker Digital Academy (see Note 25). The component unit is discretely reported to emphasize that it is legally separate from the School District. The Quaker Digital Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 1702 and 3314 to address the needs of students in kindergarten through the twelfth grade through an online educational program. Because the School District appoints a voting majority of the Academy's governing board and because of the significant services and resources provided by the School District to the Academy, the Academy is included in the School District's reporting entity. Separately issued financial statements may be obtained from Quaker Digital Academy, 248 Front Avenue S.W., New Philadelphia, Ohio 44663.

The School District participates in three jointly governed organizations and two public entity risk pools. These organizations are the Ohio Mid-Eastern Regional Educational Service Agency, Buckeye Joint Vocational School District, Tuscarawas County Tax Incentive Review Council, the Ohio School Boards Association Workers' Compensation Group Rating Program, and the Portage Area School Consortium. These organizations are presented in Notes 20 and 21 to the basic financial statements.

Information in the following notes to the basic financial statements is applicable to the primary government. Information for the component unit is presented in Note 25.

## Note 2 – Summary of Significant Accounting Policies

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

***Basis of Presentation***

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

***Government-wide Financial Statements*** The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. These statements usually distinguish between those activities of the School District that are governmental and those that are considered business-type. The School District, however, has no business-type activities.

The statement of net position presents the financial condition of the governmental activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

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

***Fund Accounting***

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

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

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

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

***Proprietary Funds*** Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. The School District's only proprietary fund is an internal service fund.

> ***Internal Service Fund*** The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District, or to other governments, on a cost reimbursement basis. The only internal service fund that the School District accounts for is a health and vision insurance program, which provides medical benefits to employees.

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

***Measurement Focus***

***Government-wide Financial Statements*** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the School District are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its internal service fund.

The private purpose trust fund is accounted for on a flow of economic resources measurement focus.

***Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statements presented for the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflows/inflows of resources and in the presentation of expenses versus expenditures.

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 9). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

***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 District, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB plans. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 13 and 14.

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 District, deferred inflows of resources include property taxes, pension, OPEB plans and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2018, but which were levied to finance fiscal year 2019 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes, intergovernmental grants, tuition and fees, contributions and donations, and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the reconciliation of total governmental fund balances to net position of governmental activities found on page 19. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 13 and 14.)

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

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

***Budgetary Process***

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

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

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year. Prior to June 30, the School District passed an amended appropriation measure which closely matched appropriations to expenditures plus encumbrances in the majority of categories.

***Cash and Cash Equivalents***

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements. During fiscal year 2018, investments were limited to STAR Ohio and a repurchase agreement. Repurchase agreements are reported at cost.

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

For fiscal year 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates; however, twenty-four hours advance notice is appreciated for deposits and withdrawals of $25 million or more. STAR Ohio reserves the right to limit the transactions to $100 million per day, requiring the excess amount to be transacted the following business day(s), but only to the $100 million limit. All accounts of the participant will be combined for these purposes.

By Ohio statutes, the Board of Education has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2018 amounted to $74,843, which includes $15,940 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents.

***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 the purchase and an expenditure/expense is reported in the year in which services are consumed.

***Inventory***

Inventories are presented at the lower of cost or market value and donated commodities are presented at their entitlement value. Inventories are presented on a first-in, first-out basis and are expended/expensed when used. Inventories consist of materials and supplies held for consumption, and donated food and purchased food held for resale.

***Capital Assets***

All capital assets of the School District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Donated capital assets are recorded at their acquisition values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| Description | Governmental Activities Estimated Lives |
|---|---|
| Land Improvements | 40 years |
| Buildings and Improvements | 10-40 years |
| Furniture and Equipment | 5-20 years |
| Vehicles | 10 years |

### *Compensated Absences*

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

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund or funds from which the employees who have accumulated the leave are paid.

### *Accrued Liabilities and Long-Term Obligations*

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, 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.

***Pensions/Other Postemployment Benefits (OPEB)***

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net positon 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.

***Fund Balance***

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

***Nonspendable*** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

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

***Assigned*** Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by the School District Board of Education. In the general fund, assigned amounts represent intended uses established by the School District Board of Education or by a School District official delegated that authority by State statute. State statute authorizes the Treasurer to assign fund balances for purchases on order provided such amounts have been lawfully appropriated. The School District Board of Education also assigned fund balance for public school support and to cover a gap between estimated revenue and appropriations in the fiscal year 2019 budget.

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

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

### *Net Position*

Net position represents the difference between all other elements in a statement of financial position. 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. Net position is reported as restricted when there are limitations imposed on its use through either external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net position restricted for other purposes includes band uniforms, teacher development, and instructional programs.

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

### *Interfund Activity*

Transfers between governmental activities are eliminated on the government-wide statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the government-wide statements. Interfund payments for services provided and used are not eliminated.

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

### *Operating Revenues and Expenses*

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are charges for services for health and vision insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### *Estimates*

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

## Note 3 – Changes in Accounting Principles and Restatement of Net Position

For fiscal year 2018, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* and related guidance from (GASB) Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).*

For fiscal year 2018, the School District also implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2017-1*. These changes were incorporated in the School District's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

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

GASB 75 established standards for measuring and recognizing postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported June 30, 2017:

| | |
|---|---|
| Net Position June 30, 2017 | ($22,719,594) |
| Adjustments: | |
| Net OPEB Liability | (9,963,628) |
| Deferred Outflow – Payments Subsequent to Measurement Date | 59,866 |
| Restated Net Position June 30, 2017 | ($32,623,356) |

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

## Note 4 – Budgetary Basis of Accounting

While the School District is reporting its financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The statement of revenues, expenditures, and changes in fund balance − budget (non-GAAP basis) and actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the fund liability is incurred (GAAP basis).

3. Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

4. Budgetary revenues and expenditures of the public school support fund are reclassified to the general fund for GAAP reporting.

5. Encumbrances are treated as expenditures (budget basis) rather than as a restricted, committed, or assigned fund balance (GAAP basis).

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

| Net Change in Fund Balance | |
|---|---|
| GAAP Basis | ($1,174,000) |
| Net Adjustment for Revenue Accruals | 392,964 |
| Net Adjustment for Expenditure Accruals | 11,737 |
| Advances Out | (25,439) |
| Perspective Difference: | |
| Public School Support | 5,578 |
| Encumbrances | (287,805) |
| Budget Basis | ($1,076,965) |

## Note 5 – Compliance and Accountability

***Compliance***

The School District had a negative cash balance of $793 in the improving teacher quality special revenue fund, indicating that revenue from other sources were used to pay obligations of this fund, contrary to Ohio Revised Code Section 5705.10. This cash deficit was the result of monies being expended with the expectation that the School District will be reimbursed during fiscal year 2019. Although this cash deficit was not corrected by fiscal year end, management has indicated that cash will be closely monitored to prevent future violations.

***Accountability***

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

| | Amount |
|---|---|
| *Special Revenue:* | |
| Preschool | $19,144 |
| Title VI-B | 18,549 |
| Title III | 102 |
| Title I | 47,150 |
| Preschool Grants | 1,801 |
| Improving Teacher Quality | 506 |
| Miscellaneous Federal Grants | 86 |

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

## Note 6 – Fund Balances

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

| Fund Balances | General | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| Nonspendable: | | | |
| Prepaids | $51,926 | $4,607 | $56,533 |
| Inventory | 0 | 1,787 | 1,787 |
| *Total Nonspendable* | 51,926 | 6,394 | 58,320 |
| Restricted for: | | | |
| Food Service Operations | 0 | 364,492 | 364,492 |
| Special Education | 0 | 155,730 | 155,730 |
| Student Instruction | 0 | 261,131 | 261,131 |
| Juvenile Attention Center | 0 | 158,523 | 158,523 |
| Athletics | 0 | 129,981 | 129,981 |
| Community Involvement | 0 | 48,312 | 48,312 |
| Debt Service | 0 | 33,231 | 33,231 |
| Capital Projects | 0 | 381,279 | 381,279 |
| Other Purposes: | | | |
| Band Uniforms | 0 | 5,842 | 5,842 |
| Teacher Development | 0 | 127 | 127 |
| Instructional Programs | 0 | 23,762 | 23,762 |
| *Total Restricted* | 0 | 1,562,410 | 1,562,410 |
| Committed to: | | | |
| Purchases on Order: | | | |
| Bus Purchase | 185,000 | 0 | 185,000 |
| Support Services | 33,172 | 0 | 33,172 |
| *Total Committed* | 218,172 | 0 | 218,172 |
| Assigned to: | | | |
| Public School Support | 52,472 | 0 | 52,472 |
| Purchases on Order: | | | |
| Instructional Services | 25,730 | 0 | 25,730 |
| Support Services | 27,951 | 0 | 27,951 |
| Fiscal Year 2019 Operations | 30,000 | 0 | 30,000 |
| *Total Assigned* | 136,153 | 0 | 136,153 |
| Unassigned (Deficit) | 3,653,493 | (90,801) | 3,562,692 |
| Total Fund Balances | $4,059,744 | $1,478,003 | $5,537,747 |

## Note 7 – Deposits and Investments

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

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

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

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

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

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

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

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

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

4. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;

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

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

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

8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days and two hundred seventy days, respectively, in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

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

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

Investments

As of June 30, 2018, the School District had the following investments:

| Measurement/Investment | Measurement Amount | Maturity | Standard & Poor's Rating | Percent of Total Investments |
|---|---|---|---|---|
| Net Asset Value Per Share: | | | | |
| STAR Ohio | $2,430,765 | 48.9 days | AAAm | 34.96 % |
| Cost: | | | | |
| Repurchase Agreement | 4,522,090 | Daily | N/A | 65.04 |
| Total Investments | $6,952,855 | | | 100.00 % |

***Interest Rate Risk*** Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The School District's investment policy addresses interest rate risk by requiring the School District's investment portfolio to be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments. Repurchase agreements shall not exceed 30 days.

***Custodial Credit Risk*** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The repurchase agreement is exposed to custodial credit risk in that it is uninsured, unregistered, and held by the counterparty. The School District has no investment policy dealing with the investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

***Credit Risk*** Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School District does not have an investment policy that addresses credit risk.

***Concentration of Credit Risk*** The School District places no limit on the amount it may invest in any one issuer.

## Note 8 – Receivables

Receivables at June 30, 2018, consisted of taxes, payments in lieu of taxes, accounts (tuition and fees, extracurricular, contributions and donations, charges for services, rentals, and miscellaneous) and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current fiscal year guarantee of Federal funds. All receivables except for delinquent property taxes are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

| Governmental Activities | Amounts |
|---|---|
| School Foundation Payment Report Adjustment | $205,414 |
| QDA Administrative Service Billing | 187,015 |
| QDA Health Insurance Billing | 174,582 |
| Medicaid in Schools | 136,615 |
| Juvenile Attention Center - County Share | 124,747 |
| Title I-A Improving Basic Programs Grant | 85,857 |
| Bureau of Workers' Compensation Rebate | 77,787 |
| School Employees Retirement System Refund | 63,751 |
| Regular Tuition | 27,112 |
| IDEA-B Special Education Grant | 16,338 |
| Special Education Tuition | 6,812 |
| Title I-D Neglected Grant | 3,254 |
| Title I-D Delinquent Grant | 3,202 |
| Early Childhood Education Grant | 2,936 |
| IDEA Early Childhood Special Education Grant | 2,740 |
| College Credit Plus | 1,632 |
| Title II-A Supporting Effective Instruction Grant | 793 |
| Title III Immigrant Grant | 694 |
| Strategies Secondary Transition Student with Disabilities Grant | 364 |
| Total | $1,121,645 |

***Payments in Lieu of Taxes***

The School District is party to an enterprise zone agreement (EZA). Municipalities, townships, and counties can enter into EZA's, which grant property tax exemptions to encourage new investment and job creation or retention in a defined enterprise zone. Some EZA's also require the property owner to enter into a compensation agreement with the School District to help offset the property taxes the School District would have received had the improvements to the property not been exempted. The service payments that the School District receives as part of the compensation agreement are presented on the financial statements as Payments in Lieu of Taxes.

## Note 9 – Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District's parameters. Real property tax revenue received in calendar year 2018 represents collections of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed value listed as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2018 represents collections of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 became a lien December 31, 2016, were levied after April 1, 2017, and are collected in calendar year 2018 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Tuscarawas County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2018, are available to finance fiscal year 2018 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

The amount available as an advance at June 30, 2018, was $1,344,161 in the general fund and $14,734 in the permanent improvement capital projects fund. By comparison, the amount available as an advance at June 30, 2017, was $2,030,334 in the general fund, $67,562 in the debt service fund, and $21,574 in the permanent improvement capital projects fund. The difference was in the timing and collection by the County Auditor.

On an accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

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

| | 2017 Second Half Collections | | 2018 First Half Collections | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | $440,231,400 | 95.62 % | $445,002,670 | 95.32 % |
| Public Utility Personal | 20,170,980 | 4.38 | 21,872,560 | 4.68 |
| Total | $460,402,380 | 100.00 % | $466,875,230 | 100.00 % |
| Tax rate per $1,000 of assessed valuation | $54.72 | | $53.40 | |

The tax rate decreased due to the end of the bond retirement levy in collection year 2017 and due to an increase in property tax values in the School District during fiscal year 2018. The increase in property tax values caused the tax rate to decrease so that the emergency levy would meet its collection amount.

### *Tax Abatements*

The School District's property taxes were reduced as follows under enterprise zone tax exemption and tax increment financing agreements entered into by overlapping governments:

| Overlapping Government | Amount of Fiscal Year 2018 Taxes Abated |
|---|---|
| *Enterprise Zone Tax Exemptions:* | |
| Goshen Township | $1,110 |
| *Tax Increment Financing:* | |
| Goshen Township | 53,928 |

## Note 10 – Interfund Transactions

### *Interfund Balances*

Interfund balances at June 30, 2018, consisted of the following:

| | Interfund Receivable |
|---|---|
| Interfund Payable | General |
| ***Other Governmental Funds:*** | |
| Other Local Grants | $2,313 |
| Preschool | 23,000 |
| Title III | 126 |
| Improving Teacher Quality | 793 |
| Total | $26,232 |

Interfund receivables and payables are due to the timing of the receipt of grant monies and monies collected for some programs received by various funds. The general fund provides money to operate the programs until grants and other monies are received and the advances can be repaid.

### *Interfund Transfers*

During fiscal year 2018, the general fund transferred $137,558 to other governmental funds to move unrestricted balances to support programs and projects accounted for in those funds.

## Note 11 – Capital Assets

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

| | Balance 6/30/17 | Additions | Reductions | Balance 6/30/18 |
|---|---|---|---|---|
| Governmental Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $1,013,677 | $10,000 | $0 | $1,023,677 |
| Construction in progress | 0 | 79,065 | 0 | 79,065 |
| Total capital assets not being depreciated | 1,013,677 | 89,065 | 0 | 1,102,742 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 21,539,046 | 342,588 | 0 | 21,881,634 |
| Furniture and equipment | 4,330,890 | 420,537 | (58,643) | 4,692,784 |
| Vehicles | 2,080,369 | 255,640 | (95,956) | 2,240,053 |
| Total capital assets being depreciated | 27,950,305 | 1,018,765 | (154,599) | 28,814,471 |
| Accumulated depreciation: | | | | |
| Buildings and improvements | (12,511,095) | (517,757) | 0 | (13,028,852) |
| Furniture and equipment | (2,662,549) | (258,098) | 53,088 | (2,867,559) |
| Vehicles | (1,218,881) | (161,513) | 58,222 | (1,322,172) |
| Total accumulated depreciation | (16,392,525) | (937,368) * | 111,310 | (17,218,583) |
| Capital assets being depreciated, net | 11,557,780 | 81,397 | (43,289) | 11,595,888 |
| Governmental activities capital assets, net | $12,571,457 | $170,462 | ($43,289) | $12,698,630 |

* Depreciation expense was charged to governmental functions as follows:

| | |
|---|---|
| Instruction: | |
| Regular | $558,788 |
| Special | 36,214 |
| Vocational | 3,171 |
| Support Services: | |
| Instructional Staff | 18,432 |
| Administration | 18,436 |
| Fiscal | 1,876 |
| Operation and Maintenance of Plant | 46,031 |
| Pupil Transportation | 102,658 |
| Central | 91 |
| Operation of Non-Instructional Services | 1,367 |
| Operation of Food Service Services | 6,315 |
| Extracurricular Activities | 143,989 |
| Total Depreciation Expense | $937,368 |

During fiscal year 2018, the School District received various band equipment valued at $20,850 from benefactors.

## Note 12 – Risk Management

### *Property and Liability Insurance*

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2018, the School District contracted with Liberty Mutual Insurance for property, inland marine, and liability insurance and fleet coverage as follows:

| Type of Coverage | Deductible | Coverage |
|---|---|---|
| Building and Contents (Replacement Cost) | $5,000 | $75,093,361 |
| Inland Marine Coverage | 500 | 1,449,716 |
| Crime Insurance | 500 - 1,000 | 50,000 - 200,000 |
| Electronic Data Processing | 5,000 | 2,000,000 |
| Automobile Liability | 250 - 1,000 | 1,000,000 |
| Uninsured Motorists | 0 | 1,000,000 |
| General Liability: | | |
| Per Occurrence | N/A | 1,000,000 |
| Annual Limit | N/A | 3,000,000 |

Settled claims have not exceeded this coverage in any of the past three years. There was no significant reduction in insurance coverage from the prior year.

### *Workers' Compensation*

For fiscal year 2018, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (See Note 21). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Comp Management, A Sedgwick CMS Company, provides administrative, cost control and actuarial services to the GRP.

### *Employee Medical Benefits*

The School District is a member of the Portage Area School Consortium (the Consortium), a shared risk pool (See Note 21), through which a cooperative Health Benefit Program was created for the benefit of its members. The Health Benefit Program (the Program) is an employee health benefit plan which covers the participating members' employees. The Consortium acts as a fiscal agent for the cash funds paid into the program by the participating school districts. These funds are pooled together for the purposes of paying health benefit claims of employees and their covered dependents, administrative expenses of the program and premiums for stop-loss insurance coverage. A reserve exists which is to cover any unpaid claims if the School District were to withdraw from the pool. If the reserve would not cover such claims, the School District would be liable for any costs above the reserve.

## Note 13 – Defined Benefit Pension Plans

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

***Net Pension Liability/Net OPEB Liability***

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

The net pension/OPEB liability represent the School District's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability 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 District's obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

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

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension/OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 14 for the required OPEB disclosures.

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

Plan Description – The School District's non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309.

SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

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

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

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

The School District's contractually required contribution to SERS was $536,016 for fiscal year 2018. Of this amount $21,010 is reported as an intergovernmental payable.

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

Plan Description – The School District's licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple employer public employee system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 East Broad Street, Columbus, Ohio 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 is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. 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, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was $2,083,035 for fiscal year 2018. Of this amount, $305,031 is reported as an intergovernmental payable.

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

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

| | SERS | STRS | Total |
|---|---|---|---|
| Proportion of the Net Pension Liability | | | |
| Prior Measurement Date | 0.11057230% | 0.12679097% | |
| Proportion of the Net Pension Liability | | | |
| Current Measurement Date | 0.11034270% | 0.12633603% | |
| Change in Proportionate Share | -0.00022960% | -0.00045494% | |
| Proportionate Share of the Net Pension Liability | \$6,592,733 | \$30,011,395 | \$36,604,128 |
| Pension Expense | (\$208,956) | (\$11,420,596) | (\$11,629,552) |

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

| | SERS | STRS | Total |
|---|---|---|---|
| **Deferred Outflows of Resources** | | | |
| Differences between Expected and Actual Experience | \$283,728 | \$1,158,900 | \$1,442,628 |
| Changes of Assumptions | 340,915 | 6,563,822 | 6,904,737 |
| Changes in Proportionate Share and Difference between School | | | |
| District Contributions and Proportionate Share of Contributions | 78,833 | 805,822 | 884,655 |
| School District Contributions Subsequent to the Measurement Date | 536,016 | 2,083,035 | 2,619,051 |
| Total Deferred Outflows of Resources | \$1,239,492 | \$10,611,579 | \$11,851,071 |
| **Deferred Inflows of Resources** | | | |
| Differences between Expected and Actual Experience | \$0 | \$241,880 | \$241,880 |
| Net Difference between Projected and | | | |
| Actual Earnings on Pension Plan Investments | 31,294 | 990,411 | 1,021,705 |
| Changes in Proportionate Share and Difference between School | | | |
| District Contributions and Proportionate Share of Contributions | 18,718 | 257,623 | 276,341 |
| Total Deferred Inflows of Resources | \$50,012 | \$1,489,914 | \$1,539,926 |

\$2,619,051 reported as deferred outflows of resources related to pension resulting from School District 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:

| | SERS | STRS | Total |
|---|---|---|---|
| Fiscal Year Ending June 30: | | | |
| 2019 | $292,746 | $1,518,112 | $1,810,858 |
| 2020 | 419,518 | 2,865,410 | 3,284,928 |
| 2021 | 94,892 | 2,158,412 | 2,253,304 |
| 2022 | (153,692) | 496,696 | 343,004 |
| Total | $653,464 | $7,038,630 | $7,692,094 |

***Actuarial Assumptions – SERS***

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

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

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

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

| | |
|---|---|
| Wage Inflation | 3.00 percent |
| Future Salary Increases, including inflation | 3.50 percent to 18.20 percent |
| COLA or Ad Hoc COLA | 2.5 percent |
| Investment Rate of Return | 7.50 percent net of investments expense, including inflation |
| Actuarial Cost Method | Entry Age Normal |

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

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disabled members 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 most recent experience study was completed for the five year period ended June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined 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 rebalanced uncorrelated asset classes.

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

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

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

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| School District's Proportionate Share of the Net Pension Liability | $9,149,000 | $6,592,733 | $4,451,338 |

***Actuarial Assumptions – STRS***

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

| | July 1, 2017 | July 1, 2016 |
|---|---|---|
| Inflation | 2.50 percent | 2.75 percent |
| Projected salary increases | 12.50 percent at age 20 to 2.50 percent at age 65 | 12.25 percent at age 20 to 2.75 percent at age 70 |
| Investment Rate of Return | 7.45 percent, net of investment expenses, including inflation | 7.75 percent, net of investment expenses, including inflation |
| Payroll Increases | 3 percent | 3.5 percent |
| Cost-of-Living Adjustments (COLA) | 0.0 percent, effective July 1, 2017 | 2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date. |

For the July 1, 2017, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For the July 1, 2016, actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022 – Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Actuarial assumptions used in the July 1, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011, through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

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

***Discount Rate*** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that 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 payment to determine the total pension liability as of June 30, 2017.

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

| | 1% Decrease (6.45%) | Current Discount Rate (7.45%) | 1% Increase (8.45%) |
|---|---|---|---|
| School District's Proportionate Share of the Net Pension Liability | $43,020,313 | $30,011,395 | $19,053,331 |

***Social Security System***

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2018, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages.

## Note 14 – Defined Benefit OPEB Plans

See Note 13 for a description of the net OPEB liability.

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

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

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 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 District's surcharge obligation was $64,994.

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 District's contractually required contribution to SERS was $84,846 for fiscal year 2018. Of this amount $65,772 is reported as an intergovernmental payable.

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

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

***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 District's proportion of the net OPEB liability was based on the School District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

| | SERS | STRS | Total |
|---|---|---|---|
| Proportion of the Net OPEB Liability Prior Measurement Date | 0.11166320% | 0.12679097% | |
| Proportion of the Net OPEB Liability Current Measurement Date | 0.11174770% | 0.12633603% | |
| Change in Proportionate Share | 0.00008450% | -0.00045494% | |
| Proportionate Share of the Net OPEB Liability | $2,999,015 | $4,929,166 | $7,928,181 |
| OPEB Expense | $176,195 | ($1,507,592) | ($1,331,397) |

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

| | SERS | STRS | Total |
|---|---|---|---|
| **Deferred Outflows of Resources** | | | |
| Differences between Expected and Actual Experience | $0 | $284,542 | $284,542 |
| School District Contributions Subsequent to the Measurement Date | 84,846 | 0 | 84,846 |
| Total Deferred Outflows of Resources | $84,846 | $284,542 | $369,388 |
| **Deferred Inflows of Resources** | | | |
| Changes of Assumptions | $284,591 | $397,060 | $681,651 |
| Net Difference between Projected and Actual Earnings on OPEB Plan Investments | 7,920 | 210,684 | 218,604 |
| Changes in Proportionate Share and Difference between School District Contributions and Proportionate Share of Contributions | 7,617 | 20,854 | 28,471 |
| Total Deferred Inflows of Resources | $300,128 | $628,598 | $928,726 |

$84,846 reported as deferred outflows of resources related to OPEB resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal 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 | ($107,853) | ($74,900) | ($182,753) |
| 2020 | (107,853) | (74,900) | (182,753) |
| 2021 | (82,443) | (74,900) | (157,343) |
| 2022 | (1,979) | (74,901) | (76,880) |
| 2023 | 0 | (22,229) | (22,229) |
| Thereafter | 0 | (22,226) | (22,226) |
| Total | ($300,128) | ($344,056) | ($644,184) |

***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 as follows:

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

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

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

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

The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 13.

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

| | 1% Decrease (2.63%) | Current Discount Rate (3.63%) | 1% Increase (4.63%) |
|---|---|---|---|
| School District's Proportionate Share of the Net OPEB Liability | $3,621,692 | $2,999,015 | $2,505,695 |

| | 1% Decrease (6.5% decreasing to 4.0%) | Current Trend Rate (7.5% decreasing to 5.0%) | 1% Increase (8.5% decreasing to 6.0%) |
|---|---|---|---|
| School District's Proportionate Share of the Net OPEB Liability | $2,433,476 | $2,999,015 | $3,747,515 |

***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 as follows:

| | |
|---|---|
| Inflation | 2.50 percent |
| Projected Salary Increases | 12.50 percent at age 20 to 2.50 percent at age 65 |
| Investment Rate of Return | 7.45 percent, net of investment expenses, including inflation |
| Payroll Increases | 3 percent |
| Cost-of-Living Adjustments (COLA) | 0.0 percent, effective July 1, 2017 |
| Blended Discount Rate of Return | 4.13 percent |
| Health Care Cost Trends | 6 to 11 percent initial, 4.5 percent ultimate |

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

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

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

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

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.

The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 13.

***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 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 District's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rates*** The following table represents the School District's proportionate share of 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 School District's proportionate share of 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 School District's proportionate share of 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 District's Proportionate Share of the Net OPEB Liability | $6,617,326 | $4,929,166 | $3,594,968 |

| | 1% Decrease | Current Trend Rate | 1% Increase |
|---|---|---|---|
| School District's Proportionate Share of the Net OPEB Liability | $3,424,573 | $4,929,166 | $6,909,386 |

## Note 15 – Long-Term Obligations

The changes in the School District's long-term obligations during fiscal year 2018 were as follows:

| | Amount Outstanding 06/30/17 | Additions | Reductions | Amount Outstanding 06/30/18 | Amount Due in One Year |
|---|---|---|---|---|---|
| **Governmental Activities** | | | | | |
| General Obligation Bonds: | | | | | |
| 2013 Current Interest Bonds | $570,000 | $0 | ($570,000) | $0 | $0 |
| 2014 Current Interest Bonds | 440,000 | 0 | (105,000) | 335,000 | 110,000 |
| 2018 School Improvement Bonds | 0 | 420,000 | 0 | 420,000 | 35,000 |
| Total General Obligation Bonds | 1,010,000 | 420,000 | (675,000) | 755,000 | 145,000 |
| Net Pension Liability: | | | | | |
| SERS | 8,092,872 | 0 | (1,500,139) | 6,592,733 | 0 |
| STRS | 42,440,760 | 0 | (12,429,365) | 30,011,395 | 0 |
| Total Net Pension Liability | 50,533,632 | 0 | (13,929,504) | 36,604,128 | 0 |
| Net OPEB Liability: | | | | | |
| SERS | 3,182,814 | 0 | (183,799) | 2,999,015 | 0 |
| STRS | 6,780,814 | 0 | (1,851,648) | 4,929,166 | 0 |
| Total Net OPEB Liability | 9,963,628 | 0 | (2,035,447) | 7,928,181 | 0 |
| Capital Leases | 119,266 | 0 | (27,080) | 92,186 | 28,027 |
| Compensated Absences | 1,869,199 | 280,170 | (264,975) | 1,884,394 | 284,259 |
| *Total Governmental Activities Long-Term Liabilities* | $63,495,725 | $700,170 | ($16,932,006) | $47,263,889 | $457,286 |

On September 12, 2013, the School District issued $2,245,000 in general obligation refunding bonds. The bonds bear an interest rate of 2.23 percent per annum and mature in various installments through December 1, 2017. The proceeds were used to refund the 2004 general obligation bonds. The bonds were retired through the debt service fund.

On March 21, 2014, the School District issued $745,000 in general obligation refunding bonds. The bonds bear an interest rate of 2.07 percent per annum and mature in various installments through December 1, 2020. The proceeds were used to refund the HB 264 capital lease for building improvements to the heating and lighting systems in each of its buildings. Under the terms of the lease, the School District was able to upgrade heating and lighting systems in all of its elementary, high school, and middle school complexes. The bonds are being retired through the general fund and the permanent improvement fund.

On June 1, 2018, the School District issued $420,000 in general obligation bonds for the purpose of paying costs of acquiring and installing boilers at the high school complex. The bonds were issued for a 10 year period with final maturity at June 1, 2028. Interest payments of 3.61 percent per annum are due on June 1 and December 1 of each year, until the principal amount is paid. At June 30, 2018, $412,035 of the proceeds were unspent. The bonds will be retired through the permanent improvement fund.

*Optional Redemption* The bonds are subject to optional redemption prior to maturity at any time from June 1, 2018, through May 31, 2026, inclusive, at a redemption price equal to 101 percent of the principal amount redeemed, and from June 1, 2026, through June 1, 2028, inclusive, at 100 percent of the principal amount redeemed, in all cases including interest accrued to the redemption date as provided in and in accordance with the bond resolution.

There is no repayment schedule for the net pension liability and the net OPEB liability; however, employer pension and OPEB contributions are made from the general fund and the food service, juvenile attention, summer school, special education – CAFS, auxiliary services, preschool, title VI-B, title III, title I, improving teacher quality, and miscellaneous federal grants special revenue funds. For additional information related to the net pension liability and the net OPEB liability, see Notes 13 and 14. Capital leases will be paid from the general fund and the summer school special revenue fund. Compensated absences will be paid from the general fund and the food service, juvenile attention, summer school, auxiliary services, preschool, title VI-B, title I, and preschool grants special revenue funds.

The School District's overall legal debt margin was $41,297,002 with an unvoted debt margin of $466,875 at June 30, 2018. Principal and interest requirements to retire general obligation debt outstanding at June 30, 2018, are as follows:

| Fiscal Year Ending June 30 | General Obligation Bonds | |
|---|---|---|
| | Principal | Interest |
| 2019 | $145,000 | $20,651 |
| 2020 | 147,000 | 17,093 |
| 2021 | 153,000 | 13,410 |
| 2022 | 40,000 | 10,830 |
| 2023 | 41,000 | 9,386 |
| 2024-2028 | 229,000 | 23,394 |
| Total | $755,000 | $94,764 |

## Note 16 – Capital Leases

In prior fiscal years, the School District entered into two capital leases for copiers. The lease obligations meet the criteria of capital leases and have been recorded on the government-wide statements. The original amount capitalized for the copiers and the book value as of June 30, 2018, are as follows:

| | Amounts |
|---|---|
| Asset: | |
| Equipment | $115,567 |
| Less: Accumulated Depreciation | (14,446) |
| Book Value | $101,121 |

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

| Fiscal Year Ending June 30 | Amounts |
|---|---|
| 2019 | $31,420 |
| 2020 | 31,562 |
| 2021 | 31,562 |
| 2022 | 4,204 |
| Total Minimum Lease Payments | 98,748 |
| Less: Amount Representing Interest | (6,562) |
| Present Value of Mimimum Lease Payments | $92,186 |

Capital lease payments have been reclassified and are reflected as debt service in the fund financial statements. These expenditures are reflected as program expenditures on a budgetary basis.

## Note 17 – Operating Lease

The School District entered into an operating lease agreement for a postage meter. Equipment operating lease expense totaled $2,591 in fiscal year 2018. The following is a schedule by fiscal year of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms as of June 30, 2018:

| Fiscal Year Ending June 30 | Amounts |
|---|---|
| 2019 | $2,591 |
| 2020 | 2,591 |
| 2021 | 1,295 |
| Total | $6,477 |

## Note 18 – Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administrators earn ten to twenty days of vacation per fiscal year, depending upon length of service. Administrative contracts designate the maximum number of vacation days that may be carried over from one contract year to the next. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 260 days for certified staff and classified staff. Upon retirement, payment is made for one-fourth of the accrued, unused sick leave credit, up to a maximum of 65 days for certified employees and classified employees. Certified and classified employees can receive an additional 5 days of paid severance for early notice by submitting a letter of resignation prior to a specified date based on employee classification.

## Note 19 – Set-Asides

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

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

| | Capital Improvements |
|---|---|
| Set-Aside Balance as of June 30, 2017 | $0 |
| Current Year Set-Aside Requirement | 536,836 |
| Current Year Offsets | (164,284) |
| Qualifying Disbursements | (406,307) |
| Totals | ($33,755) |
| Set-Aside Balance Carried Forward to Future Fiscal Years | $0 |
| Set-Aside Balance as of June 30, 2018 | $0 |

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

## Note 20 – Jointly Governed Organizations

***Ohio Mid-Eastern Regional Educational Service Agency***

Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) is a jointly governed organization created as a regional council of governments pursuant to State statutes. OME-RESA provides financial accounting services, an education management information system, cooperative purchase services and legal services to member districts. OME-RESA has eleven participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Jefferson, Muskingum, Monroe, Noble, and Tuscarawas counties. OME-RESA operates under the direction of a Board consisting of one representative from each of the participating school districts. The Jefferson County Educational Service Center office serves as the fiscal agent and receives funding from the State Department of Education. The continued existence of OME-RESA is not dependent on the School District's continued participation and no equity interest exists. OME-RESA has no outstanding debt. During fiscal year 2018, the School District paid $145,107 to OME-RESA for various services. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency, 2230 Sunset Boulevard Suite 2, Steubenville, Ohio 43952.

***Buckeye Joint Vocational School District***

The Buckeye Joint Vocational School District, which provides vocational education programs, is a distinct subdivision of the State of Ohio operated under a Board consisting of one representative from each of the eleven participating school districts' elected boards, which possessed its own budgeting and taxing authority. During fiscal year 2018, the School District paid $1,392 to Buckeye Joint Vocational School District for various items. To obtain financial information, write to Buckeye Joint Vocational School District, Lori Statler, Treasurer, 545 University Drive NE, New Philadelphia, Ohio 44663.

***Tuscarawas County Tax Incentive Review Council***

The Tuscarawas County Tax Incentive Review Council (TCTIRC) is a jointly governed organization, created as a regional council of governments pursuant to State Statutes. TCTIRC has 56 members, consisting of 3 members appointed by the County Commissioners, 22 members appointed by municipal corporations, 12 members appointed by township trustees, 2 members from the County Auditor's office, 16 members appointed by boards of education located within the County, and 1 member representing the Economic Development and Finance Alliance. TCTIRC reviews and evaluates the performance of each Enterprise Zone Agreement. This body is advisory in nature and cannot directly impact an existing Enterprise Zone Agreement; however, the council can make written recommendations to the legislative authority which approved the agreement. There is no cost associated with being a member of this council. The continued existence of the TCTIRC is not dependent on the School District's continued participation and no equity interest exists. During fiscal year 2018, the School District made no payments to the TCTIRC.

## Note 21 – Insurance Purchasing Pool

***Ohio School Boards Association Workers' Compensation Group Rating Program***

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating School Districts pay an enrollment fee to the GRP to cover the costs of administering the program.

***Portage Area School Consortium***

The Portage Area School Consortium (the Consortium) is a regional council of governments established pursuant to Chapter 167 of the Ohio Revised Code, consisting of various school districts in the Portage County, Ohio area. The Consortium is a stand-alone entity, comprised of two stand-alone pools, the Portage Area School Consortium Property and Casualty Pool and the Portage Area School Consortium Health and Welfare Insurance Pool. These Pools were established by the Consortium on August 5, 1988, to provide property and casualty risk management services and risk sharing to its members. The Pools were established as local government risk pools under Section 1744.081 of the Ohio Revised Code and are not subject to Federal tax filing requirements.

The Ohio Revised Code Section 167.04 requires the Consortium to adopt bylaws designating the officers of the Consortium and their method of selection, creating a governing body to act for the Consortium, appointing a fiscal officer, and providing for the conduct of the Consortium's business. The Assembly is the legislative and managerial body of the Consortium. The Assembly is composed of representation of the member schools. The member school's governing body appoints one representative to the Consortium (usually the superintendent or designee). In the case of a member that is a school district, that representative shall be an executive appointed by the board of education. The Assembly serves without compensation.

## Note 22 – Contingencies

### *Grants*

The School District received financial assistance from Federal and State agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2018, if applicable, cannot be determined at this time.

### *School Foundation*

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, ODE adjustments for fiscal year 2018 have been finalized. The impact of FTE adjustments has been recorded as a receivable on the fiscal year 2018 financial statements.

### *Litigation*

The School District is a defendant in a lawsuit. Although management cannot presently determine the outcome of this lawsuit, management believes that the resolution of this matter will not materially adversely affect the School District's financial condition.

## Note 23 – Significant Commitments

### *Contractual Commitments*

The School District had the following contractual commitments outstanding at June 30, 2018:

| Project | Contract Amount | Amount Paid | Remaining on Contract |
|---|---|---|---|
| Modular Classrooms | $107,330 | $0 | $107,330 |
| High School Boilers | 134,976 | 0 | 134,976 |
| Total | $242,306 | $0 | $242,306 |

### *Encumbrances*

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to ensure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

| | |
|---|---|
| General | $287,805 |
| Other Governmental Funds | 80,183 |
| Total | $367,988 |

## Note 24 – Related Party Transactions

In fiscal year 2018, the Academy paid the School District $153,278 for services provided by the School District to the Academy, as well as insurance premiums paid by the School District for the Academy.

## Note 25 – Quaker Digital Academy

The Quaker Digital Academy has been determined to be a discrete component unit, as the School District appoints a voting majority of the Academy's governing board and due to the significant services and resources provided by the School District to the Academy. Therefore, it has been included as part of the School District's basic financial statements. The Academy issues a publicly available, stand-alone financial report that includes financial statements and supplementary information. That report may be obtained by writing to Quaker Digital Academy, 248 Front Avenue S.W., New Philadelphia, Ohio 44663.

***Basis of Presentation***

The Academy is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows, liabilities and deferred inflows are included on the statement of net position. The Academy uses the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized at the time they are incurred.

***Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Academy's basic financial statements are prepared using the accrual basis of accounting.

***Revenues – Exchange and Non-exchange Transactions*** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Nonexchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

***Expenses*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

***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) until then. For the Academy, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB plans.

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 Academy, deferred inflows of resources related to pension and OPEB plans are reported on the statement of net position.

***Net Position***

Net position represents the difference between all other elements in a statement of financial position. 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. Net position is reported as restricted when there are limitations imposed on its use through either external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net position restricted for other purposes includes special education and educational improvements.

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

***Deposits and Investments***

At fiscal year end, the carrying amount of the Academy's deposits was ($5,596) and the bank balance was $6,068. The deficit carrying balance is covered by the Academy's investment in a repurchase agreement. Protection of the Academy's deposits is provided by the Federal Deposit Insurance Corporation (FDIC). There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

As of June 30, 2018, the Academy had $6,287,805 invested in a repurchase agreement, which was measured at cost and had a daily maturity.

***Interest Rate Risk*** Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Academy's investment policy addresses interest rate risk by requiring the Academy's investment portfolio to be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments. Repurchase agreements shall not exceed 30 days.

***Custodial Credit Risk*** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The repurchase agreement is exposed to custodial credit risk in that it is uninsured, unregistered, and held by the counterparty. The Academy has no investment policy dealing with the investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

***Credit Risk*** The Academy has no investment policy dealing with investment credit risk beyond the requirement of State statute.

***Concentration of Credit Risk*** The Academy places no limit on the amount it may invest in any one issuer.

***Pensions/Other Postemployment Benefits (OPEB)***

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net positon 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.

***Compensated Absences***

The Academy reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Academy will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Academy has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Academy's termination policy.

***Changes in Accounting Principles and Restatement of Net Position***

For fiscal year 2018, the Academy implemented Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* and related guidance from (GASB) Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).*

For fiscal year 2018, the Academy also implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2017-1*. These changes were incorporated in the Academy's fiscal year 2018 financial statements; however, there was no effect on beginning net position.

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the Academy's fiscal year 2018 financial statements; however, there was no effect on beginning net position.

GASB 75 established standards for measuring and recognizing postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported June 30, 2017:

| | |
|---|---|
| Net Position June 30, 2017 | $1,247,484 |
| Adjustments: | |
| Net OPEB Liability | (1,032,746) |
| Deferred Outflow – Payments Subsequent to Measurement Date | 7,310 |
| Restated Net Position June 30, 2017 | $222,048 |

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

***Related Party Transactions***

In fiscal year 2018, the Academy paid the School District $276,939 for services provided by the School District to the Academy as well as insurance premiums paid by the School District for the Academy.

***Defined Benefit Pension Plans***

The Academy's contractually required contribution to SERS was $74,108 for fiscal year 2018. Of this amount $2,485 is reported as an intergovernmental payable. The Academy's contractually required contribution to STRS was $211,891 for fiscal year 2018. Of this amount $12,548 is reported as an intergovernmental payable.

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

| | SERS | STRS | Total |
|---|---|---|---|
| Proportion of the Net Pension Liability Prior Measurement Date | 0.01354110% | 0.01207494% | |
| Proportion of the Net Pension Liability Current Measurement Date | 0.01437910% | 0.01299128% | |
| Change in Proportionate Share | 0.00083800% | 0.00091634% | |
| Proportionate Share of the Net Pension Liability | $859,119 | $3,086,106 | $3,945,225 |
| Pension Expense | ($13,639) | ($1,067,770) | ($1,081,409) |

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

| | SERS | STRS | Total |
|---|---|---|---|
| **Deferred Outflows of Resources** | | | |
| Differences between Expected and Actual Experience | $36,974 | $119,171 | $156,145 |
| Changes of Assumptions | 44,426 | 674,965 | 719,391 |
| Changes in Proportionate Share and Difference between Academy Contributions and Proportionate Share of Contributions | 45,043 | 404,139 | 449,182 |
| Academy Contributions Subsequent to the Measurement Date | 74,108 | 211,891 | 285,999 |
| Total Deferred Outflows of Resources | $200,551 | $1,410,166 | $1,610,717 |
| **Deferred Inflows of Resources** | | | |
| Differences between Expected and Actual Experience | $0 | $24,873 | $24,873 |
| Net Difference between Projected and Actual Earnings on Pension Plan Investments | 4,078 | 101,845 | 105,923 |
| Changes in Proportionate Share and Difference between Academy Contributions and Proportionate Share of Contributions | 4,193 | 0 | 4,193 |
| Total Deferred Inflows of Resources | $8,271 | $126,718 | $134,989 |

$285,999 reported as deferred outflows of resources related to pension resulting from Academy 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:

| | SERS | STRS | Total |
|---|---|---|---|
| Fiscal Year Ending June 30: | | | |
| 2019 | $51,739 | $262,733 | $314,472 |
| 2020 | 63,548 | 401,278 | 464,826 |
| 2021 | 22,912 | 300,238 | 323,150 |
| 2022 | (20,027) | 107,308 | 87,281 |
| Total | $118,172 | $1,071,557 | $1,189,729 |

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

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| Academy's Proportionate Share of the Net Pension Liability | $1,192,235 | $859,119 | $580,068 |

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

| | 1% Decrease (6.45%) | Current Discount Rate (7.45%) | 1% Increase (8.45%) |
|---|---|---|---|
| Academy's Proportionate Share of the Net Pension Liability | $4,423,829 | $3,086,106 | $1,959,276 |

***Defined Benefit OPEB Plans***

For fiscal year 2018, the Academy's SERS surcharge obligation was $8,342. 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 Academy's contractually required contribution to SERS was $11,087 for fiscal year 2018. Of this amount $8,434 is reported as an intergovernmental payable.

For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to postemployment health care.

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 Academy's proportion of the net OPEB liability was based on the Academy'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:

| | SERS | STRS | Total |
|---|---|---|---|
| Proportion of the Net OPEB Liability Prior Measurement Date | 0.01357630% | 0.01207494% | |
| Proportion of the Net OPEB Liability Current Measurement Date | 0.01446720% | 0.01299128% | |
| Change in Proportionate Share | 0.00089090% | 0.00091634% | |
| Proportionate Share of the Net OPEB Liability | $388,262 | $506,872 | $895,134 |
| OPEB Expense | $29,364 | ($147,669) | ($118,305) |

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

| | SERS | STRS | Total |
|---|---|---|---|
| **Deferred Outflows of Resources** | | | |
| Differences between Expected and Actual Experience | $0 | $29,260 | $29,260 |
| Changes in Proportionate Share and Difference between Academy Contributions and Proportionate Share of Contributions | 17,102 | 42,005 | 59,107 |
| Academy Contributions Subsequent to the Measurement Date | 11,087 | 0 | 11,087 |
| Total Deferred Outflows of Resources | $28,189 | $71,265 | $99,454 |
| **Deferred Inflows of Resources** | | | |
| Changes of Assumptions | $36,844 | $40,830 | $77,674 |
| Net Difference between Projected and Actual Earnings on OPEB Plan Investments | 1,025 | 21,665 | 22,690 |
| Total Deferred Inflows of Resources | $37,869 | $62,495 | $100,364 |

$11,087 reported as deferred outflows of resources related to OPEB resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal 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 | ($7,410) | ($343) | ($7,753) |
| 2020 | (7,410) | (343) | (7,753) |
| 2021 | (5,692) | (343) | (6,035) |
| 2022 | (255) | (343) | (598) |
| 2023 | 0 | 5,073 | 5,073 |
| Thereafter | 0 | 5,069 | 5,069 |
| Total | ($20,767) | $8,770 | ($11,997) |

***Sensitivity of the Academy'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 Academy's proportionate share of the SERS net OPEB liability and what the Academy's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.63 percent) and higher (4.63 percent) than the current discount rate (3.63 percent). Also shown is what the Academy's proportionate share of the net OPEB liability would be based on health care cost trend rates that are one 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.

| | 1% Decrease (2.63%) | Current Discount Rate (3.63%) | 1% Increase (4.63%) |
|---|---|---|---|
| Academy's Proportionate Share of the Net OPEB Liability | $468,875 | $388,262 | $324,395 |

| | 1% Decrease (6.5% decreasing to 4.0%) | Current Trend Rate (7.5% decreasing to 5.0%) | 1% Increase (8.5% decreasing to 6.0%) |
|---|---|---|---|
| Academy's Proportionate Share of the Net OPEB Liability | $315,045 | $388,262 | $485,165 |

***Sensitivity of the Academy's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rates*** The following table represents the Academy's proportionate share of the STRS 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 Academy's proportionate share of 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 Academy's proportionate share of 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%) |
|---|---|---|---|
| Academy's Proportionate Share of the Net OPEB Liability | $680,467 | $506,872 | $369,675 |

| | 1% Decrease | Current Trend Rate | 1% Increase |
|---|---|---|---|
| Academy's Proportionate Share of the Net OPEB Liability | $352,153 | $506,872 | $710,500 |

### *Long-Term Obligations*

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

The changes in the Academy's long-term obligations during fiscal year 2018 were as follows:

| | Amount Outstanding 06/30/17 | Additions | Reductions | Amount Outstanding 06/30/18 | Amount Due in One Year |
|---|---|---|---|---|---|
| Intergovernmental Payable: | | | | | |
| Fiscal Year 2018 FTE Adjustment | $0 | $949,273 | $0 | $949,273 | $431,488 |
| Fiscal Year 2016 FTE Agreement | 0 | 1,991,850 | 0 | 1,991,850 | 0 |
| Total Intergovernmental Payable | 0 | 2,941,123 | 0 | 2,941,123 | 431,488 |
| Compensated Absences | 71,152 | 63,716 | (66,208) | 68,660 | 62,560 |
| Net Pension Liability: | | | | | |
| SERS | 991,084 | 0 | (131,965) | 859,119 | 0 |
| STRS | 4,041,846 | 0 | (955,740) | 3,086,106 | 0 |
| Total Net Pension Liability | 5,032,930 | 0 | (1,087,705) | 3,945,225 | 0 |
| Net OPEB Liability: | | | | | |
| SERS | 386,975 | 1,287 | 0 | 388,262 | 0 |
| STRS | 645,771 | 0 | (138,899) | 506,872 | 0 |
| Total Net OPEB Liability | 1,032,746 | 1,287 | (138,899) | 895,134 | 0 |
| *Total Long-Term Liabilities* | $6,136,828 | $3,006,126 | ($1,292,812) | $7,850,142 | $494,048 |

### *Operating Leases*

The Academy is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in the Academy's basic financial statements. Total costs for such leases were $109,083 for fiscal year 2018. The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms as of June 30, 2018:

| Fiscal Year | Amount |
|---|---|
| 2019 | $93,329 |
| 2020 | 80,000 |
| 2021 | 62,000 |
| 2022 | 62,000 |
| 2023 | 62,000 |
| 2024-2025 | 87,833 |
| Total Minimum Payments Required | $447,162 |

***Capital Assets***

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their acquisition values as of the date received. The Academy maintains a capitalization threshold of five hundred dollars. The Academy does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets is also capitalized.

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

| Description | Estimated Lives |
|---|---|
| Furniture and Equipment | 5-20 years |
| Vehicles | 10 years |

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

| | Balance 6/30/17 | Additions | Reductions | Balance 6/30/18 |
|---|---|---|---|---|
| Capital Assets being depreciated: | | | | |
| Furniture and Equipment | $873,482 | $55,539 | ($26,300) | $902,721 |
| Vehicles | 69,447 | 0 | 0 | 69,447 |
| Total Capital Assets being depreciated | 942,929 | 55,539 | (26,300) | 972,168 |
| Accumulated Depreciation: | | | | |
| Furniture and Equipment | (381,693) | (89,830) | 14,546 | (456,977) |
| Vehicles | (21,782) | (6,945) | 0 | (28,727) |
| Total Accumulated Depreciation | (403,475) | (96,775) | 14,546 | (485,704) |
| Total Capital Assets, net | $539,454 | ($41,236) | ($11,754) | $486,464 |

***Contingencies***

***Foundation Funding*** Academy 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 Revised 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 clawbacks of Foundation funding due to lack of evidence to support student participation and other matters of noncompliance. ODE performed such a review on the Academy for fiscal year 2018.

As of the date of this report, ODE adjustments for fiscal year 2018 have been finalized. The impact of FTE adjustments has been recorded as a liability on the fiscal year 2018 financial statements.

In addition, the Academy's contracts with the Sponsor and with the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) require payment based on revenues received from the State. As a result of FTE adjustments for fiscal year 2018, a liability has been recorded in relation to the Academy's contract with the Sponsor. As disclosed below, FTE adjustments for fiscal year 2016 have been finalized. As the OME-RESA contract for fiscal year 2018 is based on the highest student count for fiscal year 2016, management believes that neither an additional receivable nor an additional liability will result.

***Final Full-Time Equivalency (FTE) Determination***

On June 20, 2016, ODE completed a review of log-in and log-out records and non-classroom documentation, pursuant to Ohio Revised Code Section 3314.08(H). ODE determined that the Academy's FTE for the 2015-2016 school year was 0, which was 100 percent less than the 666.31 FTE reported. The final determination was based on the failure of the Academy to provide any records to ODE that documented duration time for internet-based and/or computer-based learning opportunities as well as non-classroom, non-computer-based learning opportunities. The Academy appealed the determination to the State Board of Education. On February 20, 2019, the Academy and the State Board of Education reached an agreement resulting in the Academy owing $1,991,850 to the State Board of Education. The impact of this agreement has been recorded as a liability on the financial statements.

# Required Supplementary Information

**New Philadelphia City School District**

*Required Supplementary Information*

*Schedule of the School District's Proportionate Share of the Net Pension Liability*

*School Employees Retirement System of Ohio*

*Last Five Fiscal Years (1) **

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| School District's Proportion of the Net Pension Liability | 0.11034270% | 0.11057230% | 0.10761540% | 0.10779300% | 0.10779300% |
| School District's Proportionate Share of the Net Pension Liability | $6,592,733 | $8,092,872 | $6,140,639 | $5,455,342 | $6,410,103 |
| School District's Covered Payroll | $3,637,186 | $3,439,007 | $3,353,579 | $3,132,244 | $4,781,676 |
| School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 181.26% | 235.33% | 183.11% | 174.17% | 134.06% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 69.50% | 62.98% | 69.16% | 71.70% | 65.52% |

(1) Although this schedule is intended to reflect information for ten years, information prior to fiscal year 2014 is not available. An additional column will be added each year.

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

See accompanying notes to the required supplementary information

**New Philadelphia City School District**

*Required Supplementary Information*

*Schedule of the School District's Proportionate Share of the Net OPEB Liability*

*School Employees Retirement System of Ohio*

*Last Two Fiscal Years (1) **

| | 2018 | 2017 |
|---|---|---|
| School District's Proportion of the Net OPEB Liability | 0.11174770% | 0.11166320% |
| School District's Proportionate Share of the Net OPEB Liability | $2,999,015 | $3,182,814 |
| School District's Covered Payroll | $3,637,186 | $3,439,007 |
| School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll | 82.45% | 92.55% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 12.46% | 11.49% |

(1) Although this schedule is intended to reflect information for ten years, information prior to fiscal year 2017 is not available. An additional column will be added each year.

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

See accompanying notes to the required supplementary information

**New Philadelphia City School District**
*Required Supplementary Information*
*Schedule of the School District's Proportionate Share of the Net Pension Liability*
*State Teachers Retirement System of Ohio*
*Last Five Fiscal Years (1) **

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| School District's Proportion of the Net Pension Liability | 0.12633603% | 0.12679097% | 0.12198757% | 0.12320180% | 0.12320180% |
| School District's Proportionate Share of the Net Pension Liability | $30,011,395 | $42,440,760 | $33,713,796 | $29,966,941 | $35,696,425 |
| School District's Covered Payroll | $13,966,664 | $13,455,886 | $13,338,414 | $12,561,894 | $14,026,523 |
| School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 214.88% | 315.41% | 252.76% | 238.55% | 254.49% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 75.30% | 66.80% | 72.10% | 74.70% | 69.30% |

(1) Although this schedule is intended to reflect information for ten years, information prior to fiscal year 2014 is not available. An additional column will be added each year.

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

See accompanying notes to the required supplementary information

**New Philadelphia City School District**

*Required Supplementary Information*

*Schedule of the School District's Proportionate Share of the Net OPEB Liability*

*State Teachers Retirement System of Ohio*

*Last Two Fiscal Years (1) **

| | 2018 | 2017 |
|---|---|---|
| School District's Proportion of the Net OPEB Liability | 0.12633603% | 0.12679097% |
| School District's Proportionate Share of the Net OPEB Liability | $4,929,166 | $6,780,814 |
| School District's Covered Payroll | $13,966,664 | $13,455,886 |
| School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll | 35.29% | 50.39% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 47.10% | 37.30% |

(1) Although this schedule is intended to reflect information for ten years, information prior to fiscal year 2017 is not available. An additional column will be added each year.

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

See accompanying notes to the required supplementary information

## New Philadelphia City School District

*Required Supplementary Information*
*Schedule of the School District's Contributions*
*School Employees Retirement System of Ohio*
*Last Ten Fiscal Years*

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| **Net Pension Liability** | | | | |
| Contractually Required Contribution | $536,016 | $509,206 | $481,461 | $442,002 |
| Contributions in Relation to the Contractually Required Contribution | (536,016) | (509,206) | (481,461) | (442,002) |
| Contribution Deficiency (Excess) | $0 | $0 | $0 | $0 |
| School District Covered Payroll (1) | $3,970,489 | $3,637,186 | $3,439,007 | $3,353,579 |
| Pension Contributions as a Percentage of Covered Payroll | 13.50% | 14.00% | 14.00% | 13.18% |
| **Net OPEB Liability** | | | | |
| Contractually Required Contribution (2) | $84,846 | $59,866 | $54,830 | $81,693 |
| Contributions in Relation to the Contractually Required Contribution | (84,846) | (59,866) | (54,830) | (81,693) |
| Contribution Deficiency (Excess) | $0 | $0 | $0 | $0 |
| OPEB Contributions as a Percentage of Covered Payroll | 2.14% | 1.65% | 1.59% | 2.44% |
| Total Contributions as a Percentage of Covered Payroll (2) | 15.64% | 15.65% | 15.59% | 15.62% |

(1) The School District's covered payroll is the same for Pension and OPEB.
(2) Includes surcharge

See accompanying notes to the required supplementary information

| 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| $434,129 | $661,784 | $634,115 | $619,338 | $596,506 | $336,351 |
| (434,129) | (661,784) | (634,115) | (619,338) | (596,506) | (336,351) |
| $0 | $0 | $0 | $0 | $0 | $0 |
| $3,132,244 | $4,781,676 | $4,714,610 | $4,927,112 | $4,405,510 | $3,418,201 |
| 13.86% | 13.84% | 13.45% | 12.57% | 13.54% | 9.84% |
| $56,533 | $61,831 | $71,904 | $117,387 | $71,265 | $187,139 |
| (56,533) | (61,831) | (71,904) | (117,387) | (71,265) | (187,139) |
| $0 | $0 | $0 | $0 | $0 | $0 |
| 1.80% | 1.29% | 1.53% | 2.38% | 1.62% | 5.47% |
| 15.66% | 15.13% | 14.98% | 14.95% | 15.16% | 15.31% |

**New Philadelphia City School District**

*Required Supplementary Information*

*Schedule of the School District's Contributions*

*State Teachers Retirement System of Ohio*

*Last Ten Fiscal Years*

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| **Net Pension Liability** | | | | |
| Contractually Required Contribution | $2,083,035 | $1,955,333 | $1,883,824 | $1,867,378 |
| Contributions in Relation to the Contractually Required Contribution | (2,083,035) | (1,955,333) | (1,883,824) | (1,867,378) |
| Contribution Deficiency (Excess) | $0 | $0 | $0 | $0 |
| School District Covered Payroll (1) | $14,878,821 | $13,966,664 | $13,455,886 | $13,338,414 |
| Pension Contributions as a Percentage of Covered Payroll | 14.00% | 14.00% | 14.00% | 14.00% |
| **Net OPEB Liability** | | | | |
| Contractually Required Contribution | $0 | $0 | $0 | $0 |
| Contributions in Relation to the Contractually Required Contribution | 0 | 0 | 0 | 0 |
| Contribution Deficiency (Excess) | $0 | $0 | $0 | $0 |
| OPEB Contributions as a Percentage of Covered Payroll | 0.00% | 0.00% | 0.00% | 0.00% |
| Total Contributions as a Percentage of Covered Payroll | 14.00% | 14.00% | 14.00% | 14.00% |

(1) The School District's covered payroll is the same for Pension and OPEB.

See accompanying notes to the required supplementary information

| 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| $1,633,046 | $1,823,448 | $1,803,384 | $1,742,376 | $1,784,112 | $1,444,126 |
| (1,633,046) | (1,823,448) | (1,803,384) | (1,742,376) | (1,784,112) | (1,444,126) |
| $0 | $0 | $0 | $0 | $0 | $0 |
| $12,561,894 | $14,026,523 | $13,872,185 | $13,402,892 | $13,723,938 | $11,108,662 |
| 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |
| $125,619 | $140,265 | $138,722 | $134,239 | $137,239 | $111,087 |
| (125,619) | (140,265) | (138,722) | (134,239) | (137,239) | (111,087) |
| $0 | $0 | $0 | $0 | $0 | $0 |
| 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% |
| 14.00% | 14.00% | 14.00% | 14.00% | 14.00% | 14.00% |

## Net Pension Liability

### Changes in Assumptions – SERS

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

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

| | Fiscal Year 2017 | Fiscal Year 2016 and Prior |
|---|---|---|
| Wage Inflation | 3.00 percent | 3.25 percent |
| Future Salary Increases, including inflation | 3.50 percent to 18.20 percent | 4.00 percent to 22.00 percent |
| Investment Rate of Return | 7.50 percent net of investments expense, including inflation | 7.75 percent net of investments expense, including inflation |

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

### Changes in Assumptions – STRS

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

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

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

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

**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 as follows:

| | |
|---|---|
| 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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**NEW PHILADELPHIA CITY SCHOOL DISTRICT**
**TUSCARAWAS COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**FOR THE YEAR ENDED JUNE 30, 2018**

| **FEDERAL GRANTOR** *Pass Through Grantor* **Program / Cluster Title** | **Federal CFDA Number** | **Pass Through Entity Identifying Number** | **Total Federal Expenditures** |
|---|---|---|---|
| **U.S. DEPARTMENT OF AGRICULTURE** | | | |
| ***Passed Through Ohio Department of Education*** | | | |
| Child Nutrition Cluster: | | | |
| Non-Cash Assistance (Food Distribution): | | | |
| School Breakfast Program | 10.553 | N/A | $7,628 |
| National School Lunch Program | 10.555 | N/A | 64,465 |
| Non-Cash Assistance Subtotal | | | 72,093 |
| Cash Assistance: | | | |
| School Breakfast Program | 10.553 | N/A | 138,104 |
| National School Lunch Program | 10.555 | N/A | 439,240 |
| Cash Assistance Subtotal | | | 577,344 |
| Total Child Nutrition Cluster | | | 649,437 |
| Total U.S. Department of Agriculture | | | 649,437 |
| **U.S. DEPARTMENT OF EDUCATION** | | | |
| ***Passed Through Ohio Department of Education*** | | | |
| Title I Grants to Local Educational Agencies | 84.010 | S010A160035 | 131,789 |
| | | S010A170035 | 599,362 |
| Total Title I Grants to Local Educational Agencies | | | 731,151 |
| Special Education Cluster (IDEA): | | | |
| Special Education - Grants to States (IDEA, Part B) | 84.027 | H027A160111 | 30,551 |
| | | H027A170111 | 580,347 |
| Total Special Education - Grants to States (IDEA, Part B) | | | 610,898 |
| Special Education - Preschool Grants (IDEA Preschool) | 84.173 | H173A160119 | 306 |
| | | H173A170119 | 15,646 |
| Total Special Education - Preschool Grants (IDEA Preschool) | | | 15,952 |
| Total Special Education Cluster (IDEA) | | | 626,850 |
| English Language Acquisition State Grants | 84.365 | S365A170035 | 3,766 |
| Supporting Effective Instruction State Grant | 84.367 | S367A160034 | 2,238 |
| | | S637A170034 | 61,374 |
| Total Supporting Effective Instruction State Grant | | | 63,612 |
| Student Support and Academic Enrichment Program | 84.424 | S424A170036 | 9,809 |
| Total U.S. Department of Education | | | 1,435,188 |
| **Total Expenditures of Federal Awards** | | | **$2,084,625** |

*The accompanying notes are an integral part of this Schedule.*

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**NEW PHILADELPHIA CITY SCHOOL DISTRICT**
**TUSCARAWAS COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**2 CFR 200.510(b)(6)**
**FOR THE YEAR ENDED JUNE 30, 2018**

## NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the New Philadelphia City School District (the School District) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School District.

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

## NOTE C – INDIRECT COST RATE

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

## NOTE D - CHILD NUTRITION CLUSTER

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

## NOTE E – FOOD DONATION PROGRAM

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

## NOTE F - TRANSFERS BETWEEN PROGRAM YEARS

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

| Program Title | CFDA Number | Amt. Transferred |
|---|---|---|
| Title I Grants to Local Educational Agencies | 84.010 | $ 89,461 |
| Special Education - Grants to States | 84.027 | $ 83,994 |
| Special Education - Preschool Grants | 84.173 | $ 7,493 |
| English Language Acquisition State Grants | 84.365 | $ 173 |
| Supporting Effective Instruction State Grant | 84.367 | $ 12,686 |
| Student Support and Academic Enrichment Program | 84.424 | $ 2,667 |

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**2 CFR 200.510(b)(6)**
**FOR THE YEAR ENDED JUNE 30, 2018**
**(Continued)**

## NOTE G - TRANSFERS BETWEEN FEDERAL PROGRAMS

During fiscal year 2018, the School District made allowable transfers of $19,042 from the Supporting Effective Instruction State Grants Program (84.367) to the Title I Grants to Local Educational Agencies (84.010) program. The Schedule shows the School District spent $63,612 on the Supporting Effective Instruction State Grants Program. The amount reported for the Supporting Effective Instruction State Grants Program on the Schedule excludes the amount transferred to the Title I Grants to Local Educational Agencies program. The amount transferred is included as Title I Grants to Local Educational Agencies program expenditures when disbursed. The following table shows the gross amount drawn for the Supporting Effective Instruction State Grants program during fiscal year 2018 and the amount transferred to the Title I Grants to Local Educational Agencies program.

| | |
|---|---|
| Supporting Effective Instruction State Grants | $ 82,654 |
| Transfer to Title I Grants to Local Educational Agencies | (19,042) |
| **Total Supporting Effective Instruction State Grants** | **$ 63,612** |

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

New Philadelphia City School District
Tuscarawas County
248 Front Avenue, SW
New Philadelphia, Ohio 44663

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of the New Philadelphia City School District, Tuscarawas County, Ohio (the School District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 8, 2019, wherein we noted the School District adopted Governmental Accounting Standards Board (GASB) Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and wherein we noted the Quaker Digital Academy, the discretely presented component unit, has reached an agreement with the Ohio Department of Education (ODE) regarding their appeal of ODE's FTE review of zero for the Academy for fiscal year 2016.

***Internal Control Over Financial Reporting***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***Compliance and Other Matters***

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

***Purpose of this Report***

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

Keith Faber
Auditor of State
Columbus, Ohio

March 8, 2019

OHIO AUDITOR OF STATE
KEITH FABER

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

New Philadelphia City School District
Tuscarawas County
248 Front Avenue, SW
New Philadelphia, Ohio 44663

To the Board of Education:

***Report on Compliance for each Major Federal Program***

We have audited New Philadelphia City School District's, Tuscarawas County, Ohio (the School District), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of New Philadelphia City School District's major federal programs for the year ended June 30, 2018. The *Summary of Auditor's Results* in the accompanying Schedule of Findings identifies the School District's major federal programs.

The School District's basic financial statements include the operations of the Quaker Digital Academy, a discretely presented component unit of the School District, which expended $367,560 in federal awards which is not included in the School District's Schedule of Expenditures of Federal Awards during the year ended June 30, 2018. Our audit, described below, did not include the operations of the Quaker Digital Academy because the component unit is legally separate from the primary government, which this report addresses, and because it expended less than $750,000 of Federal awards for the year ended June 30, 2018, it was not subject to Uniform Guidance.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on each Major Federal Program***

In our opinion, the New Philadelphia City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2018.

***Report on Internal Control Over Compliance***

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

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

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

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

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

March 8, 2019

**NEW PHILADELPHIA CITY SCHOOL DISTRICT**
**TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS**
**2 CFR § 200.515**
**JUNE 30, 2018**

## 1. SUMMARY OF AUDITOR'S RESULTS

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

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

**None.**

## 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

**None.**

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OHIO AUDITOR OF STATE
**KEITH FABER**

**NEW PHILADELPHIA CITY SCHOOL DISTRICT**

**TUSCARAWAS COUNTY**

**CLERK'S CERTIFICATION**

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

Susan Babbitt

**CLERK OF THE BUREAU**

**CERTIFIED**
**MARCH 28, 2019**