



OHIO AUDITOR OF STATE
KEITH FABER



**NORTON CITY SCHOOL DISTRICT
SUMMIT COUNTY
JUNE 30, 2018**

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SUMMIT COUNTY
JUNE 30, 2018**

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OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT

Norton City School District
Summit County
4128 South Cleveland-Massillon Road
Norton, Ohio 44203

To the Board of Education

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Norton City School District, Summit County, Ohio (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Norton City School District, Summit 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 19 to the financial statements, during 2018, the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. 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 District's basic financial statements taken as a whole.

The Schedule of and 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 22, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Keith Faber
Auditor of State

Columbus, Ohio

March 22, 2019

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Norton City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

This discussion and analysis of Norton City School District's (School District) 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 financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2018 are as follows:

- Net position of governmental activities increased \$10,536,535 from fiscal year 2017.
- General revenues accounted for \$19,491,144 in revenue or 69.98% of all revenues. Program specific revenues in the form of charges for services, and operating grants, contributions and interest accounted for \$8,360,973 or 30.02% of total revenues of \$27,852,117.
- The School District had \$17,315,582 in expenses related to governmental activities; only \$8,360,973 of these expenses was offset by program specific revenues that include charges for services, operating grants, contributions and interest and capital grants and contributions. General revenues of \$19,491,144 were able to cover these programs.
- The School District had four major governmental funds, the general fund, the bond retirement debt service fund, the permanent improvement and classroom facilities capital projects funds. The general fund's balance decreased \$332,621 to \$139,190 at June 30, 2018. The bond retirement fund balance increased \$173,197 due to an increase in property taxes. The permanent improvement fund's balance decreased \$1,098,112 as spending on the capital projects are completed. The classroom facilities capital projects fund's balance decreased \$212,987 also due to the spending on capital projects as they are completed.
- The net pension and net other postemployment benefits (OPEB) liability combined decreased \$12,843,226 from 2017. This decrease is mainly due to better than expected investment returns by the public retirement systems.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Norton City 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 present 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.

Norton City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

In the case of the School District, the general fund, the bond retirement debt service fund and the permanent improvement and classroom facilities capital projects funds are by far the most significant funds.

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While these statements contain information about 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 helps answer the question, "How did we do financially during 2018?" 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. This basis, of accounting takes into account, all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net position and changes in 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 current 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, the School District's activities are considered to be all Governmental Activities:

Governmental Activities - Most of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities and food service operations.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 12. Fund financial reports provide detailed information about the School District's major funds. 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 funds. The School District's only major governmental funds are the general fund, the bond retirement debt service fund, the permanent improvement and classroom facilities capital projects funds.

Governmental Funds Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which 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 determine whether there are more or fewer financial resources that can be spent in the near future to

Norton City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
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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.

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Over time, net position can serve as a useful indicator of a government's financial position. During fiscal year 2018, the School District had an increase in net position of \$10,536,535.

Table 1 provides a summary of the School District's net position for 2018 compared to 2017:

	Table 1 Net Position	
	<u>Governmental Activities</u>	
	<u>2018</u>	Restated <u>2017</u>
Assets		
Current and other assets	\$ 16,433,531	\$ 18,844,391
Capital assets, net of depreciation	39,745,387	39,362,323
Total assets	<u>56,178,918</u>	<u>58,206,714</u>
Deferred outflows of resources		
Deferred charge on refunding	942,676	984,340
Pension	8,912,871	7,949,811
OPEB	304,562	62,342
Total deferred outflow of resources	<u>10,160,109</u>	<u>8,996,493</u>
Liabilities		
Current and other liabilities	2,544,342	3,638,587
Long-term liabilities:		
Due within one year	611,943	195,678
Due in more than one year:		
Net pension liability	30,271,864	41,459,315
Net OPEB liability	7,011,392	8,667,167
Other amounts	24,971,387	24,957,022
Total liabilities	<u>65,410,928</u>	<u>78,917,769</u>
Deferred inflows of resources		
Property taxes	9,193,689	8,967,900
Pension	1,063,757	-
OPEB	816,580	-
Total deferred inflow of resources	<u>11,074,026</u>	<u>8,967,900</u>
Net Position		
Net investment in capital assets	16,627,774	17,779,622
Restricted	3,549,592	3,129,129
Unrestricted	<u>(30,323,293)</u>	<u>(41,591,213)</u>
Total net position	<u>\$ (10,145,927)</u>	<u>\$ (20,682,462)</u>

Norton City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

Net investment in capital assets, reported on the government-wide statements represents a large component of net position. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, and vehicles, all of which are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net position, \$3,549,592, represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted net position, \$1,915,120 is restricted for capital projects, \$1,029,663 is restricted for debt service, \$416,456 is restricted for food services, and \$188,353 is restricted for other purposes. The remaining balance of net position is a deficit of (\$30,323,293) and is unrestricted.

The net pension liability is the largest single liability reported by the School District at June 30, 2018. 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). 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.

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 (\$12,077,637) to (\$20,682,462).

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 \$62,342 computed under GASB 45. GASB 45 required recognizing OPEB 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 \$1,000,321.

In addition to the negative expense reported for OPEB, the School District is reporting a negative expense in the amount of \$9,073,490 for significant changes in the net pension liability for fiscal year 2018.

Norton City School District
Management's Discussion and Analysis
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Unaudited

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

Table 2
Changes in Net Position

	Governmental Activities	
	<u>2018</u>	<u>2017</u>
Revenues		
Program revenues:		
Charges for services	\$ 5,885,326	\$ 6,092,288
Operating grants, contributions and interest	1,919,777	1,752,549
Capital grants and contributions	555,870	-
General revenues:		
Property taxes	10,097,410	8,845,798
Grants and entitlements	9,277,980	9,099,069
Gain on sale of capital asset	-	58,135
Investment earnings	48,526	73,319
Miscellaneous	67,228	57,322
Total revenues	<u>27,852,117</u>	<u>25,978,480</u>
Program Expenses		
Instruction:		
Regular	4,274,533	11,993,495
Special	1,766,976	3,294,422
Vocational	340,068	701,696
Adult/continuing	5,620	9,139
Student intervention services	312,558	412,325
Support services:		
Pupils	1,673,720	2,115,053
Instructional staff	456,764	629,527
Board of education	64,023	39,765
Administration	812,511	1,824,583
Fiscal	540,435	775,067
Business	261,273	302,812
Operation and maintenance of plant	2,744,592	5,415,092
Pupil transportation	1,626,383	1,951,606
Central	82,025	99,008
Operation non-instructional services:		
Operation of food services	974,699	1,085,030
Community services	5,436	2,597
Extracurricular activities	466,185	831,199
Interest and fiscal charges	907,781	897,764
Total expenses	<u>17,315,582</u>	<u>32,380,180</u>
Change in net position	10,536,535	(6,401,700)
Net position beginning of year	(20,682,462)	(5,675,937)
Restatement	-	(8,604,825)
Net position end of year	<u>\$ (10,145,927)</u>	<u>\$ (20,682,462)</u>

Norton City School District
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2018
 Unaudited

Governmental Activities

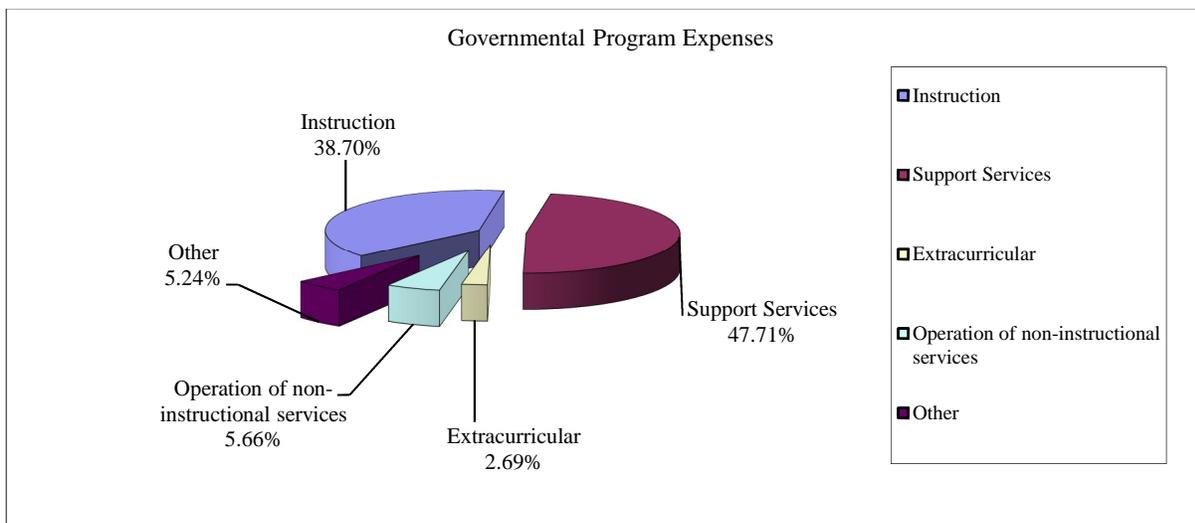
Norton City School District depends on both property taxes and State funding.

Several revenue sources fund our governmental activities with property tax and State foundation revenues being the largest contributors. Property tax levies generated over \$10.0 million in 2018. General revenues from grants and entitlements, such as the school foundation program, generated over \$9.0 million. Due to the combination of taxes and intergovernmental funding representing nearly 69.57% of all revenues, the School District monitors both of these sources very closely for fluctuations.

A review of Table 2 reflects that the total cost of instructional services was \$6,699,755, or 38.69% of governmental program expenses. Instructional expenses include activities directly related to the teaching of pupils and the interaction between teacher and pupil. As compared to the prior year, these expenses decreased \$7,566,153, or 53.04%. The reason for this decrease was due to decreased costs related to regular and special instruction compared to the prior year. This decrease is due to a significant change in the net pension and net OPEB liabilities for the current fiscal year.

Pupil services and instructional staff include the activities involved in assisting staff and the content and process of teaching pupils. These expenses represent \$2,130,484 of the total governmental program expenses, or 12.30%. These expenses decreased over the prior year in the amount of \$614,096, or 22.37% again, due to a significant change in the net pension and net OPEB liabilities for the current fiscal year.

Below is a graphical display of the program expenses in a more aggregate total than the table above.



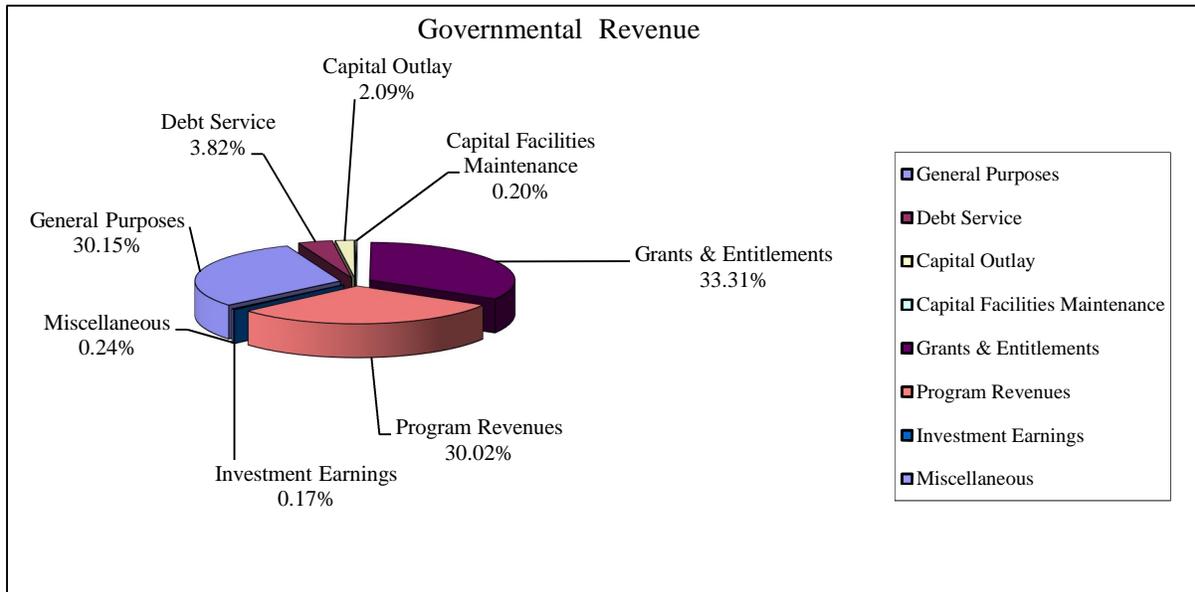
Board of Education, administration, fiscal and business classifications reflect expenses associated with establishing and administering school operation policies, financial operations and activities concerned with purchasing, receiving and maintaining goods and services for the School District. The total cost was \$1,678,242, or 9.39% of governmental program expenses.

Norton City School District

Management’s Discussion and Analysis
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Operation and maintenance of plant expenses refer to the care and upkeep of the buildings, grounds, equipment and the safety of the School District’s operations. The total cost for the operation and maintenance services was \$2,744,592, or 15.85% of the governmental program expenses. Expenses for providing this program decreased \$2,670,500, or 49.32% as compared to the prior year.

Pupil transportation expenses are expenses related to the transportation of students to and from school, as well as the service and maintenance of those vehicles. Total transportation cost was \$1,626,383, or 9.39% of the total governmental program expenses. Expenses for providing this program also decreased \$325,223, or 16.7% as compared to the prior year.



Program revenues include charges for services, grants, contributions and interest that are program specific. Property taxes made up 36.25% of total revenues for governmental activities for the Norton City Schools in fiscal year 2018 while program revenues for governmental activities provided 30.02% of governmental revenues. The property revenue is reported by the purpose of the levy, such as; general purpose, debt service, capital outlay and capital facilities maintenance. The 33.31% provided by the grants and entitlements portion of general revenues includes monies received from the Ohio Department of Education, State Foundation Program and property tax relief such as the homestead exemptions and rollbacks provided by HB 920.

Norton City School District

Management’s Discussion and Analysis
 For the Fiscal Year Ended June 30, 2018
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As a result of implementing the accounting standard for pension and OPEB, the School District is reporting a significant net pension liability, net OPEB liability and related deferred inflows of resources for the fiscal year which have a negative effect on net position. In addition, the School District is reporting deferred outflows of resources and a decrease in expenses related to pension and OPEB, which have a positive impact on net position. The decrease in pension and OPEB expense is the difference between the contractually required contributions and the pension and OPEB expense resulting from the change in the liability that is not reported as deferred inflows or outflows. These amounts can be found in the reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities. To further explain the impact of these accounting standards on the School District’s net position, additional information is presented below.

	<u>2018</u>	<u>2017</u>
Deferred outflows - pension	\$ 8,912,871	\$ 7,949,811
Deferred outflows - OPEB	304,562	62,342
Deferred inflows - pension	(1,063,757)	-
Deferred inflows - OPEB	(816,580)	-
Net pension liability	(30,271,864)	(41,459,315)
Net OPEB liability	<u>(7,011,392)</u>	<u>(8,667,167)</u>
Impact of GASB 68 and GABB 75 on net position	<u>\$ (29,946,160)</u>	<u>\$ (42,114,329)</u>

The School District’s Funds

The School District’s governmental funds are accounted for using the modified accrual basis of accounting. The total revenues and other financing sources for governmental funds were \$28,047,399 and total expenditures and other financing uses were \$29,472,935. The net change in fund balance for governmental funds was a decrease of \$1,425,536. This overall decrease in fund balance was mainly due to expenditures used for the completion of construction projects.

Table 3
 Change in Fund Balance

<u>Fund</u>	Fund Balance June 30, 2018	Fund Balance June 30, 2017	Increase (Decrease)
General	\$ 139,190	\$ 471,811	\$ (332,621)
Bond retirement	1,144,846	971,649	173,197
Permanent improvement	279,923	1,378,035	(1,098,112)
Classroom facilities	1,554,044	1,767,031	(212,987)
Other governmental	656,030	611,043	44,987
Total	<u>\$ 3,774,033</u>	<u>\$ 5,199,569</u>	<u>\$ (1,425,536)</u>

General Fund

The School District’s general fund balance decreased by \$332,621 during the fiscal year. The tables that follow assist in illustrating the financial activities and fund balance of the general fund.

Norton City School District
 Management's Discussion and Analysis
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 Unaudited

Table 4
 General Fund - Change in Revenue

	2018	2017	Percent
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
Taxes	\$ 8,485,985	\$ 7,323,605	15.87%
Intergovernmental	9,735,408	9,511,106	2.36%
Interest	11,745	12,995	(9.62%)
Tuition and fees	4,916,622	5,008,786	(1.84%)
Extracurricular activities	20,818	58,812	(64.60%)
Gifts and donations	12,707	9,978	27.35%
Charges for services	211,623	217,606	(2.75%)
Rent	12,885	14,718	(12.45%)
Miscellaneous	94,734	70,333	34.69%
Total	<u>\$ 23,502,527</u>	<u>\$ 22,227,939</u>	

Overall revenues within the general fund increased \$1,274,588 for the fiscal year. This is due to an increase in property tax due partially to varying amounts available as an advance each year that are recognized as revenue for the current fiscal year.

The table that follows assists in illustrating the expenditures of the general fund.

Table 5
 General Fund - Change in Expenditures by Type

	2018	2017	Percent
<u>Expenditures</u>	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
Instruction	\$ 14,910,067	\$ 14,710,090	1.36%
Support services	8,433,090	8,565,786	(1.55%)
Extracurricular activities	469,031	484,880	(3.27%)
Operation of non-instructional services	1,417	-	n/a
Capital outlay	103,313	575	17867.48%
Debt service	24,541	27,079	(9.37%)
Total	<u>\$ 23,941,459</u>	<u>\$ 23,788,410</u>	

Expenditures increased \$153,049 from the prior year. This increase is mainly due to increased costs related to instruction and the purchase of capital related items.

Bond Retirement Fund

The bond retirement fund balance increased \$173,197 due to an increase in property taxes due partially to varying amounts available as an advance.

Permanent Improvement Fund

The School District's permanent improvement fund balance decreased by \$1,098,112, this was due to the completion of the construction of the fieldhouse and elementary renovation.

Norton City School District

Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

Classroom Facilities Fund

The School District’s classroom facilities fund balance decreased by \$212,987, this was also due to the completion of the construction of the fieldhouse and elementary renovation.

General Fund 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.

For the general fund, the original budgeted revenue and other financing source estimate was \$23,036,632. This amount was changed during the year, resulting in a final revenue budget of \$23,507,484. Actual revenue and other financing sources reported was \$23,560,440 which is \$523,808 greater than the original budgeted amounts.

The original expenditures and other financing uses estimate of \$24,225,532 was revised slightly over the course of the fiscal year. The final budgeted expenditures and other financing uses were \$24,497,086, which was an increase of \$271,554 or 1.1 percent over the original budget. Actual expenditures, including encumbrances and other financing uses were under budget by \$379,603. This was the result of conservative spending by the School District.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2018, the School District had \$39,745,387 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. Table 6 shows fiscal year 2018 balances compared to fiscal year 2017:

Table 6
Capital Assets, at Fiscal Year End
(Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Land	\$ 1,259,263	\$ 1,265,263
Construction in progress	-	1,103,638
Land improvements	1,947,465	1,981,330
Buildings and improvements	33,452,555	31,709,242
Furniture and equipment	2,510,493	2,604,325
Vehicles	575,611	698,525
Total capital assets	<u>\$ 39,745,387</u>	<u>\$ 39,362,323</u>

Norton City School District

Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

The total increase in the value of capital assets, as compared to the prior year, is due primarily to the current year’s additions of the new field house and elementary school renovation. Other significant additions for the current fiscal year included various land improvements and copiers. See Note 7 to the basic financial statements for detail on the School District’s capital assets.

Debt

At June 30, 2018, the School District had \$24,222,173 in bonds (including unamortized bond premium and bond accretion) and capital leases outstanding with \$372,108 due within one year. Table 7 summarizes the debt outstanding:

Table 7
Outstanding Debt, at Fiscal Year End

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
General obligation bonds	\$ 24,148,925	\$ 24,197,763
Capital leases	<u>73,248</u>	<u>4,488</u>
Total outstanding debt	<u>\$ 24,222,173</u>	<u>\$ 24,202,251</u>

The School District has budgeted to meet all of its debt requirements, all of which are to be repaid from the debt service fund. The capital leases are to be repaid from the general fund, which the School District has budgeted to meet these requirements.

See Note 12 & 13 to the basic financial statements for detail on the School District’s long-term obligations.

Current Issues Affecting Financial Condition

The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast. The financial future of the School District is not without its challenges. These challenges stem from issues that are at the local and State level. The local challenges will continue to exist, as the School District must rely heavily on property taxes to fund its operations. State level challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with the unconstitutionality of the State’s educational funding system. Although the School District relies heavily on its property taxpayers to support its operations, the community support for the schools is quite strong.

Due to the unsettled issues in the school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In conclusion, the School District’s system of budgeting and internal controls is well regarded. All of the School District’s financial abilities will be needed to meet the challenges of the future.

Norton City School District

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
Unaudited

Contacting the School District's Financial Management

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 or need additional financial information, contact Stephanie Hagenbush, Treasurer/Chief Fiscal Officer of the Norton City School District, 4128 South Cleveland Massillon Road, Norton, Ohio 44203 by phone (330) 825-2114 or e-mail shagenbush@nortonschools.org.

Norton City School District

Statement of Net Position

June 30, 2018

	Governmental Activities
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 4,752,303
Cash and cash equivalents:	
In segregated accounts	55,418
Receivables:	
Taxes	10,450,064
Accounts	929,026
Intergovernmental	166,653
Prepaid items	49,680
Inventory held for resale	12,395
Materials and supplies inventory	17,992
Capital assets:	
Land and construction in progress	1,259,263
Depreciable capital assets	48,438,095
Accumulated depreciation	(9,951,971)
Total capital assets	<u>39,745,387</u>
Total assets	<u>56,178,918</u>
<u>Deferred outflows of resources</u>	
Deferred charge on refunding	942,676
Pension	8,912,871
OPEB	304,562
Total deferred outflows of resources	<u>10,160,109</u>
<u>Liabilities:</u>	
Accounts payable	127,953
Contracts payable	237,241
Accrued wages	1,633,982
Retainage payable	101,359
Intergovernmental payable	302,810
Accrued interest payable	140,997
Long-term liabilities:	
Due within one year	611,943
Due in more than one year:	
Net pension liability	30,271,864
Net OPEB liability	7,011,392
Other amounts due in more than one year	24,971,387
Total liabilities	<u>65,410,928</u>
<u>Deferred inflows of resources</u>	
Property taxes	9,193,689
Pension	1,063,757
OPEB	816,580
Total deferred inflows of resources	<u>11,074,026</u>
<u>Net position:</u>	
Net investment in capital assets	16,627,774
Restricted for:	
Capital projects	1,915,120
Debt service	1,029,663
Food services	416,456
Other purposes	188,353
Unrestricted	(30,323,293)
Total net position	<u>\$ (10,145,927)</u>

See accompanying notes to the basic financial statements.

Norton City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2018

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$ 4,274,533	\$ 4,357,071	\$ 635,486	\$ 555,870	\$ 1,273,894
Special	1,766,976	866,117	425,623	-	(475,236)
Vocational	340,068	-	-	-	(340,068)
Adult/continuing	5,620	-	-	-	(5,620)
Student intervention services	312,558	-	-	-	(312,558)
Support services:					
Pupils	1,673,720	-	270,085	-	(1,403,635)
Instructional staff	456,764	-	35,598	-	(421,166)
Board of education	64,023	-	-	-	(64,023)
Administration	812,511	-	873	-	(811,638)
Fiscal	540,435	-	-	-	(540,435)
Business	261,273	-	-	-	(261,273)
Operation and maintenance of plant	2,744,592	12,885	22,172	-	(2,709,535)
Pupil transportation	1,626,383	-	-	-	(1,626,383)
Central	82,025	-	-	-	(82,025)
Operation of non-instructional services:					
Operation of food services	974,699	482,044	528,246	-	35,591
Community services	5,436	-	-	-	(5,436)
Extracurricular activities	466,185	167,209	1,694	-	(297,282)
Interest and fiscal charges	907,781	-	-	-	(907,781)
Total governmental activities	<u>\$ 17,315,582</u>	<u>\$ 5,885,326</u>	<u>\$ 1,919,777</u>	<u>\$ 555,870</u>	<u>(8,954,609)</u>
<u>General Revenues:</u>					
Property taxes levied for:					
General purposes					8,395,789
Debt service					1,065,197
Capital outlay					581,421
Capital facilities maintenance					55,003
Grants and entitlements not restricted to specific programs					9,277,980
Investment earnings					48,526
Miscellaneous					67,228
Total general revenues					<u>19,491,144</u>
Change in net position					10,536,535
Net position at beginning of year, restated					<u>(20,682,462)</u>
Net position at end of year					<u>\$ (10,145,927)</u>

See accompanying notes to the basic financial statements.

Norton City School District

Balance Sheet

Governmental Funds

June 30, 2018

	General	Bond Retirement	Permanent Improvement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>						
Equity in pooled cash and cash equivalents	\$ 865,975	\$ 1,042,236	\$ 305,428	\$ 1,694,434	\$ 828,261	\$ 4,736,334
<u>Receivables:</u>						
Taxes	8,692,808	1,086,160	671,096	-	-	10,450,064
Accounts	926,688	-	-	-	2,338	929,026
Intergovernmental	99,028	-	-	-	67,625	166,653
Interfund	5,000	-	-	-	-	5,000
Prepaid items	49,680	-	-	-	-	49,680
Inventory held for resale	-	-	-	-	12,395	12,395
Materials and supplies inventory	17,992	-	-	-	-	17,992
Advances to other funds	50,411	-	-	-	-	50,411
Equity in pooled cash and cash equivalents (restricted)	15,969	-	-	-	-	15,969
Total assets	<u>\$ 10,723,551</u>	<u>\$ 2,128,396</u>	<u>\$ 976,524</u>	<u>\$ 1,694,434</u>	<u>\$ 910,619</u>	<u>\$ 16,433,524</u>
<u>Liabilities, deferred inflows of resources and fund balances:</u>						
<u>Liabilities:</u>						
Accounts payable	\$ 106,469	\$ -	\$ -	\$ -	\$ 21,484	\$ 127,953
Accrued wages	1,600,800	-	-	-	33,182	1,633,982
Contracts payable	-	-	92,695	140,390	4,156	237,241
Intergovernmental payable	285,629	-	-	-	17,181	302,810
Retainage payable	-	-	-	-	101,359	101,359
Advances from other funds	-	-	-	-	50,411	50,411
Total liabilities	<u>1,992,898</u>	<u>-</u>	<u>92,695</u>	<u>140,390</u>	<u>227,773</u>	<u>2,453,756</u>
<u>Deferred inflows of resources</u>						
Property taxes	7,648,950	957,736	587,003	-	-	9,193,689
Unavailable revenue - delinquent property taxes	209,824	25,814	16,903	-	-	252,541
Unavailable revenue - other	732,689	-	-	-	26,816	759,505
Total deferred inflows of resources	<u>8,591,463</u>	<u>983,550</u>	<u>603,906</u>	<u>-</u>	<u>26,816</u>	<u>10,205,735</u>
<u>Fund balances:</u>						
Nonspendable	134,052	-	-	-	-	134,052
Restricted	-	1,144,846	279,923	1,554,044	689,664	3,668,477
Committed	11,000	-	-	-	-	11,000
Unassigned	(5,862)	-	-	-	(33,634)	(39,496)
Total fund balances	<u>139,190</u>	<u>1,144,846</u>	<u>279,923</u>	<u>1,554,044</u>	<u>656,030</u>	<u>3,774,033</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 10,723,551</u>	<u>\$ 2,128,396</u>	<u>\$ 976,524</u>	<u>\$ 1,694,434</u>	<u>\$ 910,619</u>	<u>\$ 16,433,524</u>

See accompanying notes to the basic financial statements.

Norton City School District
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2018

Total governmental funds balances		\$ 3,774,033
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.		39,745,387
Other long-term assets that are not available to pay for current-period expenditures and therefore are unavailable revenue in the funds:		
Property taxes	\$ 252,541	
Tuition and fees	732,689	
Intergovernmental	26,816	
Total	<u>1,012,046</u>	1,012,046
The net pension/OPEB liability is 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	8,912,871	
Deferred inflows - pension	(1,063,757)	
Net pension liability	(30,271,864)	
Deferred outflows - OPEB	304,562	
Deferred inflows - OPEB	(816,580)	
Net OPEB liability	<u>(7,011,392)</u>	
Total		(29,946,160)
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 governmental activities in the statement of net position.		50,418
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(140,997)
Long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	\$ (14,974,287)	
Refunding general obligation bonds	(7,544,923)	
Premium and accretion on bonds	(1,629,715)	
Unamortized cost of refunding	942,676	
Compensated absences	(1,361,157)	
Capital leases	<u>(73,248)</u>	
Total		<u>(24,640,654)</u>
Net position of governmental activities		<u>\$ (10,145,927)</u>

See accompanying notes to the basic financial statements.

Norton City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2018

	General	Bond Retirement	Permanent Improvement	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 8,485,985	\$ 1,063,555	\$ 600,763	\$ -	\$ 55,003	\$ 10,205,306
Intergovernmental	9,735,408	38,249	96,066	555,870	1,318,619	11,744,212
Interest	11,745	-	-	30,189	7,300	49,234
Tuition and fees	4,916,622	-	-	-	-	4,916,622
Extracurricular activities	20,818	-	-	-	155,269	176,087
Gifts and donations	12,707	-	-	-	1,694	14,401
Charges for services	211,623	-	-	-	481,344	692,967
Rent	12,885	-	-	-	-	12,885
Miscellaneous	94,734	-	-	-	34,640	129,374
Total revenues	<u>23,502,527</u>	<u>1,101,804</u>	<u>696,829</u>	<u>586,059</u>	<u>2,053,869</u>	<u>27,941,088</u>
Expenditures:						
Current:						
Instruction:						
Regular	10,951,208	-	316,282	-	67,497	11,334,987
Special	3,005,335	-	5,577	-	403,189	3,414,101
Vocational	634,412	-	6,640	-	-	641,052
Adult/continuing	6,554	-	-	-	-	6,554
Student intervention services	312,558	-	-	-	-	312,558
Support services:						
Pupils	2,030,997	-	2,654	-	267,101	2,300,752
Instructional staff	544,042	-	2,243	-	37,493	583,778
Board of education	65,578	-	-	-	-	65,578
Administration	1,584,158	-	2,460	-	846	1,587,464
Fiscal	546,079	17,201	10,640	-	-	573,920
Business	255,346	-	-	-	3,884	259,230
Operation and maintenance of plant	1,709,811	-	40,424	799,046	17,515	2,566,796
Pupil transportation	1,607,755	-	50,818	-	-	1,658,573
Central	89,324	-	-	-	-	89,324
Operation of non-instructional services:						
Operation of food services	-	-	-	-	967,142	967,142
Community services	1,417	-	-	-	4,561	5,978
Extracurricular activities	469,031	-	-	-	174,067	643,098
Capital outlay	103,313	-	1,357,203	-	65,587	1,526,103
Debt service:						
Principal retirement	20,851	65,000	-	-	-	85,851
Interest and fiscal charges	3,690	846,406	-	-	-	850,096
Total expenditures	<u>23,941,459</u>	<u>928,607</u>	<u>1,794,941</u>	<u>799,046</u>	<u>2,008,882</u>	<u>29,472,935</u>
Excess of revenues over (under) expenditures	<u>(438,932)</u>	<u>173,197</u>	<u>(1,098,112)</u>	<u>(212,987)</u>	<u>44,987</u>	<u>(1,531,847)</u>
Other financing sources:						
Proceeds from sale of capital assets	16,700	-	-	-	-	16,700
Inception of capital lease	89,611	-	-	-	-	89,611
Total other financing sources	<u>106,311</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>106,311</u>
Net change in fund balances	(332,621)	173,197	(1,098,112)	(212,987)	44,987	(1,425,536)
Fund balances at beginning of year	<u>471,811</u>	<u>971,649</u>	<u>1,378,035</u>	<u>1,767,031</u>	<u>611,043</u>	<u>5,199,569</u>
Fund balances at end of year	<u>\$ 139,190</u>	<u>\$ 1,144,846</u>	<u>\$ 279,923</u>	<u>\$ 1,554,044</u>	<u>\$ 656,030</u>	<u>\$ 3,774,033</u>

See accompanying notes to the basic financial statements.

Norton 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 \$ (1,425,536)

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 capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital asset additions	\$ 1,526,103	
Depreciation expense	(1,096,091)	
Excess of capital asset additions and contributions over depreciation expense		430,012

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. (46,948)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These activities consist of:

Property taxes	\$ (107,896)	
Intergovernmental	(4,314)	
Tuition and fees	23,583	
Miscellaneous	(344)	
Net change in deferred inflows of resources during the year		(88,971)

Contractually required contributions are reported as expenditures in the governmental funds however, the statement of activities reports these amounts as deferred outflows.

Pension		9,073,490
OPEB		1,000,321

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		2,013,264
OPEB		81,094

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduced long-term liabilities in the statement of net position. 85,851

Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statements of net position, the lease obligation is reported as a liability.

capital lease transactions:

Inception of a capital lease		(89,611)
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

These activities consist of:

Increase in compensated absences	(410,708)	
Decrease in accrued interest	141	
Amortization of:		
Premium	66,983	
Deferred cost of refunding	(41,664)	
Bond accretion	(83,145)	
Total reduced expenditures		(468,393)

The internal service fund used by management to charge the costs of medical, prescription drug, dental and vision claims to individual funds are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. (28,038)

Change in net position of governmental activities \$ 10,536,535

Norton 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

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	\$ 8,328,017	\$ 8,464,964	\$ 8,517,920	\$ 52,956
Intergovernmental	9,469,347	9,685,277	9,685,277	-
Interest	15,965	16,329	16,329	-
Tuition and fees	4,880,471	4,991,760	4,991,760	-
Gifts and donations	1,349	1,380	1,380	-
Charges for services	212,024	216,859	216,859	-
Rent	15,482	15,835	15,835	-
Miscellaneous	48,359	49,462	49,462	-
Total revenues	<u>22,971,014</u>	<u>23,441,866</u>	<u>23,494,822</u>	<u>52,956</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	11,108,735	11,000,266	10,836,768	163,498
Special	2,732,292	3,098,483	3,052,427	46,056
Vocational	607,075	634,976	625,538	9,438
Adult/continuing	7,903	7,126	7,020	106
Student intervention services	340,596	344,065	338,951	5,114
Support services:				
Pupils	2,132,303	2,098,208	2,067,021	31,187
Instructional staff	545,341	560,055	551,731	8,324
Board of education	42,492	67,676	66,670	1,006
Administration	1,660,004	1,652,904	1,628,336	24,568
Fiscal	674,546	577,741	553,421	24,320
Business	252,525	278,913	274,767	4,146
Operation and maintenance of plant	1,793,571	1,879,078	1,851,146	27,932
Pupil transportation	1,751,193	1,714,188	1,688,709	25,479
Central	85,895	92,204	90,834	1,370
Operation of non-instructional services	-	1,438	1,417	21
Extracurricular activities	474,708	473,535	466,497	7,038
Capital outlay	123	-	-	-
Total expenditures	<u>24,209,302</u>	<u>24,480,856</u>	<u>24,101,253</u>	<u>379,603</u>
Excess of revenues under expenditures	<u>(1,238,288)</u>	<u>(1,038,990)</u>	<u>(606,431)</u>	<u>432,559</u>
<u>Other financing sources (uses):</u>				
Proceeds from the sale of capital assets	21,465	21,465	21,465	-
Refund of prior year expenditures	40,365	40,365	40,365	-
Insurance recoveries	3,788	3,788	3,788	-
Refund of prior year receipts	(6,357)	(6,357)	(6,357)	-
Transfers out	(9,873)	(9,873)	(9,873)	-
Total other financing sources (uses)	<u>49,388</u>	<u>49,388</u>	<u>49,388</u>	<u>-</u>
Net change in fund balance	(1,188,900)	(989,602)	(557,043)	432,559
Fund balances at beginning of year	1,082,718	1,082,718	1,082,718	-
Prior year encumbrances appropriated	106,182	106,182	106,182	-
Fund balances at end of year	<u>\$ -</u>	<u>\$ 199,298</u>	<u>\$ 631,857</u>	<u>\$ 432,559</u>

See accompanying notes to the basic financial statements.

Norton City School District
Statement of Fund Net Position
Internal Service Fund
June 30, 2018

	<u>Self Insurance</u>
<u>Assets:</u>	
Current:	
Cash and cash equivalents in segregated accounts	\$ 55,418
Total assets	<u>\$ 55,418</u>
<u>Liabilities:</u>	
Current:	
Interfund payable	\$ 5,000
<u>Net position:</u>	
Unrestricted	\$ 50,418
Total liabilities and net position	<u>\$ 55,418</u>

See accompanying notes to the basic financial statements.

Norton City School District
Statement of Revenues, Expenses and Changes in Fund Net Position
Internal Service Fund
For the Fiscal Year Ended June 30, 2018

	Self Insurance
<u>Operating revenues:</u>	
Charges for services	\$ 73,349
<u>Operating expenses:</u>	
Purchased services	101,387
Change in net position	(28,038)
Net position at beginning of year	78,456
Net position at end of year	\$ 50,418

See accompanying notes to the basic financial statements.

Norton City School District
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2018

	Self Insurance
<u>Cash flows from operating activities:</u>	
Cash received for charges for services	\$ 73,529
Cash payments to suppliers for goods and services	<u>(101,387)</u>
Net cash used for operating activities	<u>(27,858)</u>
Net decrease in cash and cash equivalents	(27,858)
Cash and cash equivalents at beginning of year	<u>83,276</u>
Cash and cash equivalents at end of year	<u><u>\$ 55,418</u></u>
<u>Reconciliation of operating loss to net cash used for operating activities:</u>	
Operating loss	<u>\$ (28,038)</u>
Adjustments to reconcile operating loss to net cash used for operating activities:	
Change in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable	<u>180</u>
Net cash used for operating activities	<u><u>\$ (27,858)</u></u>

See accompanying notes to the basic financial statements.

Norton City School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Private Purpose Trust	
	Scholarships	Agency
<u>Assets:</u>		
Equity in pooled cash and cash equivalents	\$ 127	\$ 79,027
Cash and cash equivalents:		
In segregated accounts	75,340	-
Interest receivable	61	-
Total assets	<u>\$ 75,528</u>	<u>\$ 79,027</u>
<u>Liabilities:</u>		
Accounts payable	\$ -	\$ 500
Due to students	-	78,527
Total liabilities	-	<u>\$ 79,027</u>
<u>Net position:</u>		
Held in trust for scholarships	<u>\$ 75,528</u>	

See accompanying notes to the basic financial statements.

Norton 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 Scholarships
<u>Additions:</u>	
Interest	\$ 143
Gifts and donations	17,117
Total additions	<u>17,260</u>
<u>Deductions:</u>	
Payments in accordance with trust agreements	<u>18,830</u>
Change in net position	(1,570)
Net position at beginning of year	<u>77,098</u>
Net position at end of year	<u><u>\$ 75,528</u></u>

See accompanying notes to the basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF THE SCHOOL DISTRICT

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

The School District operates under a locally elected five-member Board form of government and provides educational services as mandated by state and/or federal agencies. The Board controls the School District's six instructional/support facilities staffed by 126 non-certificated employees and 166 certificated teaching and support personnel, including 20 administrators that provide services to 2,510 students and other community members.

Reporting Entity

The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements of the School District 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 general operations, food service, and student-related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization.

Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. The School District has no material component units.

The School District is associated with the Metropolitan Regional Service Council (MRSC) also known as Northeast Ohio Network for Educational Technology (NEOnet), Ohio Schools Council and the Four Cities Educational Compact, which are defined as jointly governed organizations. Jointly governed organizations are governed by representatives from each of the governments that create the organizations, but there is no ongoing financial interest or responsibility by the participating governments. Information regarding these organizations is presented in Note 14.

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

Norton City School District

A. Basis of Presentation - Fund Accounting

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. However, the services provided and used are not eliminated in the process of consolidation.

The statement of net position presents the financial condition of the governmental activities of the School District at 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 and 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 that 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 rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

B. Fund Accounting

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

Governmental Fund Types:

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

Notes to the Basic Financial Statements

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

Bond Retirement Fund: The bond retirement fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Permanent Improvement Fund: The permanent improvement capital projects fund is used to account for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary and trust funds.

Classroom Facilities Fund: The classroom facilities capital projects fund is used to account for all transactions related to Ohio Classroom Facilities construction projects.

The other governmental funds of the School District account for grants and other resources to which the School District is bound to observe constraints imposed upon the use of resources.

Proprietary Fund Type

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no enterprise funds.

Internal Service Fund: The internal service fund accounts for the financing of services provided by one department or agency to other departments or agency of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for employee health care benefits. Insurance premiums and related costs are paid from revenue received from other funds as well as employee withholdings. The payments will continue to be made from these sources and the residual cash balance as the School District make a transition from being self-insured to participating in a public entity risk pool.

Fiduciary Fund Types

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 fund, which accounts for several scholarship programs 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 funds report resources that belong to the student bodies of the various schools and for money temporarily held for Ohio High School Athletic Association (OHSAA) tournaments.

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All non-fiduciary assets, liabilities, deferred outflows of resources and deferred inflows of resources associated with the operation of the School District are included on the statement of net position.

Norton City School District

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only 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 a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private purpose trust fund is reported using the economic resources measurement focus.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets, deferred outflow of resources and all liabilities and deferred inflows of resources associated with the operation of the fund are included on the statement of net position. The statement of revenues, expenses and changes in fund net position present 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 activity.

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

Revenue - Exchange and Nonexchange 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 are expected to be collected 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 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. Revenue from property taxes is recognized in the fiscal year for which taxes are levied. 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, interest, tuition, grants, student fees and rentals.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents 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, OPEB, and a deferred charge on refunding. The deferred outflows of resources related to pension and OPEB are explained in Notes 10 and 11. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statements of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources are related to property taxes. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2018, but which were levied to finance year 2019 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported 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 and County levied sales tax. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 10 and 11)

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the fund financial statements as intergovernmental revenue and an expenditure of food service operations. In addition, this amount is reported on the statement of activities as an expense with a like amount reported within the “Operating grants and contributions” program revenue account.

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 the governmental funds.

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriation Resolution, all of which are prepared on the budgetary basis of accounting. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

D. Budgets and Budgetary Accounting

The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The amounts reported as the original budget revenue in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted revenue amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2018. The amounts reported as the original budgeted expenditure 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 expenditure amounts represent the final appropriation amounts passed by the Board during the year.

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

E. Cash and Investments

To improve cash management, all cash received by the School District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in pooled cash and cash equivalents". During the fiscal year, investments were limited to certificates of deposit, a mutual fund money market, and interest in STAR Ohio, the State Treasurer's Investment Pool. These investments are stated at market value (fair value).

The School District's investment in the State Treasury Asset Reserve of Ohio (STAR Ohio) is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company and is recognized as an external investment pool by the School District. The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For the fiscal year 2018, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice is appreciated 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to certain trust funds, unless the Board specifically allows the interest to be recorded in other funds. The Board has passed a resolution to allow interest to also be recorded in other funds as listed in Note 4.

Some of the School District's monies for the internal service funds health coverage are held separate from the School District's central bank account and are reflected as "Cash and cash equivalents in segregated accounts". The School District also holds monies separate from the School District's central bank account for monies held for future scholarships, which are reported in the scholarships private purpose trust fund.

F. Prepaids

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

G. Interfund balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables" whereas long-term interfund loans are classified as "advances to/from other funds". These amounts are eliminated in the governmental activities column of the statement of net position.

H. Inventory

On the governmental-wide financial statements, inventories are presented at cost on a first-in, first-out basis and are expended when used.

Inventories on the fund financial statements are stated at cost on a first-in, first-out basis. Inventories of the general fund consist of expendable supplies held for consumption. Inventories of the food service special revenue fund consist of donated food, purchased food and supplies held for resale. Inventories reported on the fund financial statements are expended when purchased.

I. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets in the general fund include the amount required to be reserved for unclaimed monies. See Note 17 for additional information regarding statutory reserves.

J. Bond Premiums

In governmental fund types, bond premiums are recognized in the current period. On the statement of net position, bond premiums are deferred and amortized over the term of the bonds using the bonds outstanding method, which approximates the effective interest method. Bond premiums are presented as an addition to the face amount of bonds payable.

K. Deferred Charge on Refunding

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on the refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the effective interest method and is presented as deferred outflows of resources on the statement of net position.

L. Capital Assets

General capital assets are those assets resulting 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. Donated capital assets are recorded at their acquisition value as of the date received. The School District maintains a capitalization threshold of five thousand 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 the asset's life are not capitalized. The School District's policy is not to capitalize interest costs incurred as part of construction.

All reported capital assets, other than land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	10 - 30 years
Buildings and improvements	30 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	10 - 15 years

M. Pension and other postemployment benefits (OPEB)

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

The current accounting standard requires school districts to report their proportionate share of the net pension/OPEB liability using the earning approach to pension and OPEB accounting instead of the funding approach as previously used. The funding approach limited pension and postemployment costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension/OPEB liability. Under the new standards, the net pension/OPEB liability equals the School District's proportionate share of each plan's collective present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

Pension and OPEB obligations, whether funded or unfunded, are part of the employment exchange. The employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. The unfunded portion of this benefit of exchange is a liability of the School District. However, the School District is not responsible for key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Benefit provisions and both employer and employee contribution rates are determined by State statute. The employee and employer enter the employment exchange with the knowledge that the exchange is limited by law. The pension system is responsible for the administration of the pension and OPEB plans.

There is no repayment schedule for the net pension liability or the net OPEB liability. The School District has no control over the changes in the benefits, contribution rates, and return on investments affecting the balance of the liabilities. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not identify the responsible party for the unfunded portion. Due to the unique nature of how the pension liability and the OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

N. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's 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.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments. The entire compensated absences liability is reported on the government-wide financial statements.

For the governmental fund financial statements, the matured portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid.

O. Net Position

Net position represents the difference between all other elements in the statement of financial position. Net position 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 are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net position restricted for other purposes primarily include amounts generated by individual school buildings to supplement co-curricular and extra-curricular programs, and for operating or capital costs for any new and innovative programs designed to enhance or promote education within the School District.

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

P. Accrued Liabilities and Long-term Obligations

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

Q. Fund Balances

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

Restricted fund balance category includes amounts that can be spent only for the specific purpose stipulated by constitution, external resource providers, or through enabling legislation. 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 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 fund balance classifications 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. The purpose constraint that represents the intended use is established by the Board of Education or by their designated official. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District or by State statute. The Treasurer is authorized to assign fund balance using encumbrances for planned purchases, provided such amounts have been lawfully appropriated. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

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

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.

R. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services for the self-insurance program. 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 these definitions are classified as non-operating.

S. Interfund Transactions

Interfund transactions are reported as other financing sources/uses for governmental funds in the fund financial statements. All transfers between governmental funds have been eliminated within the governmental activities column of the statement of net position.

T. Estimates

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

NOTE 2 – 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 funds and all other governmental funds are presented below:

Norton City School District

Fund Balances	Other						Total
	General	Bond Retirement	Permanent Improvement	Classroom Facilities	Governmental Funds	Governmental Funds	Governmental Funds
<u>Nonspendable</u>							
Materials and supplies inventory	\$ 17,992	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,992
Prepays	49,680	-	-	-	-	-	49,680
Advances to other funds	50,411	-	-	-	-	-	50,411
Unclaimed monies	<u>15,969</u>	-	-	-	-	-	<u>15,969</u>
Total nonspendable	<u>134,052</u>	-	-	-	-	-	<u>134,052</u>
<u>Restricted for</u>							
Food service	-	-	-	-	438,251	-	438,251
Classroom facilities maintenance	-	-	-	-	135,968	-	135,968
Instructional programs	-	-	-	-	51,195	-	51,195
Capital improvements	-	-	279,923	1,554,044	64,250	-	1,898,217
Debt service payments	-	<u>1,144,846</u>	-	-	-	-	<u>1,144,846</u>
Total restricted	-	<u>1,144,846</u>	<u>279,923</u>	<u>1,554,044</u>	<u>689,664</u>	-	<u>3,668,477</u>
<u>Committed</u>							
Underground storage tanks	<u>11,000</u>	-	-	-	-	-	<u>11,000</u>
Unassigned (deficit)	<u>(5,862)</u>	-	-	-	<u>(33,634)</u>	-	<u>(39,496)</u>
Total fund balances	<u>\$ 139,190</u>	<u>\$1,144,846</u>	<u>\$ 279,923</u>	<u>\$1,554,044</u>	<u>\$ 656,030</u>	-	<u>\$ 3,774,033</u>

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above 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 Balances - Budget (Non-GAAP Basis) and Actual presentation for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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 liability is incurred (GAAP basis).

Notes to the Basic Financial Statements

3. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).
4. Encumbrances are treated as expenditures (budget basis) rather than assigned fund balance (GAAP basis).
5. The revenues, expenditures and other financing sources and uses of the general fund include activity that is budgeted within special revenue funds (GAAP basis). However, on the budgetary basis, the activity of the special revenue funds is excluded resulting in perspective differences.

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	
	<u>General</u>
GAAP basis	\$ (332,621)
Net adjustment for revenue accruals	73,243
Net adjustment for expenditure accruals	(178,882)
Encumbrances (Budget basis) outstanding at year-end	(110,705)
Perspective differences from funds budgeted as special revenue funds:	
Revenues	(121,641)
Transfers from general fund	(9,873)
Expenditures	<u>123,436</u>
Budget basis	<u>\$ (557,043)</u>

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

Norton City School District

Interim monies may be invested in the following obligations provided they mature or are redeemable within five years from the date of settlement, unless the investment is matched to a specific obligation or debt of the School District and the investment is not a commercial paper note, a banker's acceptance or a repurchase agreement:

1. United States Treasury bills, notes, bonds, or any other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in item (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Commercial paper notes, limited to 40% (5% for a single issuer) in total of the interim monies available for investment at any one time and for a period not to exceed two hundred seventy days; and,
8. Bankers acceptances, limited to 40% of the interim monies available for investment at any one time and for a period not to exceed one hundred eighty days.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

A. Deposits:

For the fiscal year ended June 30, 2018, the School District reported \$15,969 in "Equity in pooled cash and cash equivalents (restricted)" on the balance sheet. This amount represents a reserve for unclaimed monies.

Notes to the Basic Financial Statements

The carrying value of the School District's deposits totaled \$1,601,866, and the bank balances of the deposits totaled \$1,857,108; all of which was not exposed to custodial credit risk as it was insured or collateralized by securities held by the School District's agent in the School District's name.

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

B. Investments:

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Percentage of Portfolio</u>	<u>Maturity</u>	<u>Standard and Poor's Rating</u>
STAR Ohio	\$ 1,270,790	37.82%	48.9 ⁽²⁾	AAAm
Federated Treasury Obligation Money Market	<u>2,089,559</u>	62.18%	< 1 year	AAAm
	<u>\$ 3,360,349</u>			

⁽¹⁾ Standard and Poor's rating of underlying investment

⁽²⁾ Days (Average)

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above tables identify the School District's recurring fair value measurement as of June 30, 2018. As previously discussed Star Ohio is reported at its net asset value.

All interest is legally required to be placed in the general fund, the food service special revenue fund and the scholarships private purpose trust fund. Interest revenue credited to the general fund during fiscal year 2018 amount to \$11,745, which includes \$2,256 assigned from other School District funds.

Custodial credit risk for an investment is the risk that in the event of 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 School District has invested in a Federated Treasury Obligation money market. This investment is held by the counterparty and not in the School District's name. The School District's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Interest rate risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. The School District's investment policy does not address limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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Credit risk is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation. Standard and Poor's has assigned STAR Ohio and the Federated Treasury Obligation money market an AAAM rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating.

Concentration of credit risk is the possibility of loss attributed to the magnitude of the School District's investment in a single issuer. More than 5% of the School District's investments are in the Federated Treasury Obligation money market. These investments are presented in the table above. The School District's policy places no limit on the amount that may be invested in any one issuer.

NOTE 5 - PROPERTY TAX

Property taxes are levied and assessed on a calendar year basis while the School District 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, public utility and tangible personal property (used for public utilities) located in the School District. Real property tax revenue received in calendar 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 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 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 Summit County. The County Fiscal Officer periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County 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 and public utility 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 by a credit to deferred revenue.

The amount available as an advance at year-end was \$834,034 in the general fund, \$102,610 in the bond retirement debt service fund and \$67,190 in the permanent improvement capital projects fund.

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

Notes to the Basic Financial Statements

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

<u>Property Category</u>	<u>2017 Assessed Value</u>	<u>2016 Assessed Value</u>
<u>Real Property</u>		
Residential and agricultural	\$ 249,414,360	\$ 231,581,880
Commercial , industrial and mineral	39,184,240	38,191,020
Public utilities	43,720	35,730
<u>Tangible Personal Property</u>		
Public utilities	<u>12,871,670</u>	<u>12,460,090</u>
Total	<u>\$ 301,513,990</u>	<u>\$ 282,268,720</u>

NOTE 6 - RECEIVABLES

Receivables at year-end consisted of taxes, interfund, accrued interest, accounts, intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. The general fund and the other governmental funds reported intergovernmental receivables in the amounts of \$99,028 and \$67,625.

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NOTE 7 - CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>Balance July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2018</u>
Capital assets, not being depreciated:				
Land	\$ 1,265,263	\$ -	\$ (6,000)	\$ 1,259,263
Construction in progress	<u>1,103,638</u>	<u>1,295,712</u>	<u>(2,399,350)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>2,368,901</u>	<u>1,295,712</u>	<u>(2,405,350)</u>	<u>1,259,263</u>
Capital assets, being depreciated:				
Land improvements	3,149,397	75,048	(143,734)	3,080,711
Buildings and improvements	38,090,638	2,439,716	(890,631)	39,639,723
Furniture and equipment	3,864,390	114,977	(126,371)	3,852,996
Vehicles	<u>2,601,394</u>	<u>-</u>	<u>(736,729)</u>	<u>1,864,665</u>
Total capital assets, being depreciated	<u>47,705,819</u>	<u>2,629,741</u>	<u>(1,897,465)</u>	<u>48,438,095</u>
Less: Accumulated depreciation				
Land improvements	(1,168,067)	(105,251)	140,072	(1,133,246)
Buildings and improvements	(6,381,396)	(686,915)	881,143	(6,187,168)
Furniture and equipment	(1,260,065)	(208,809)	126,371	(1,342,503)
Vehicles	<u>(1,902,869)</u>	<u>(95,116)</u>	<u>708,931</u>	<u>(1,289,054)</u>
Total accumulated depreciation	<u>(10,712,397)</u>	<u>(1,096,091)</u>	<u>1,856,517</u>	<u>(9,951,971)</u>
Total capital assets being depreciated, net	<u>36,993,422</u>	<u>1,533,650</u>	<u>(40,948)</u>	<u>38,486,124</u>
Governmental activities capital assets, net	<u>\$ 39,362,323</u>	<u>\$ 2,829,362</u>	<u>\$ (2,446,298)</u>	<u>\$ 39,745,387</u>

Notes to the Basic Financial Statements

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 442,222
Special	13,569
Vocational	32,519
Support services:	
Pupils	1,001
Instructional staff	19,210
Administration	31,122
Fiscal	1,979
Business	13,560
Operation and maintenance of plant	283,633
Pupil transportation	86,075
Operation of food services	41,922
Extracurricular activities	<u>129,279</u>
Total depreciation expense	<u>\$ 1,096,091</u>

NOTE 8 – INTERFUND BALANCES

Interfund balances result from the time lag between dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. In a prior year, the general fund advanced money to two nonmajor special revenue funds and advanced money to the internal service fund during the current fiscal year. The advances to the special revenue funds were used to fund state and federal grants where the money has not yet been received. All of these interfund balances are expected to be repaid when anticipated revenue is received.

	Interfund Receivable	Interfund Payable	Advances to other funds	Advances from other funds
General fund	\$ 5,000	\$ -	\$ 50,411	\$ -
Nonmajor governmental funds	-	-	-	50,411
Internal service fund	-	5,000	-	-
	<u>\$ 5,000</u>	<u>\$ 5,000</u>	<u>\$ 50,411</u>	<u>\$ 50,411</u>

NOTE 9 – RISK MANAGEMENT

A. Property and Liability

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. These risks are covered by commercial insurance purchased from independent third parties. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in the past three years.

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B. Health Insurance

The School District has ceased being self-insured. On July 1, 2010, the School District became a participant in the Summit Regional Health Care Consortium (SRHCC) to provide medical/surgical, dental, vision, life insurance and accidental death and dismemberment insurance for its employees and their covered dependents. The SRHCC is a shared risk pool comprised of five Summit County school districts. The employer participants pay monthly contributions that are placed in a common fund from which eligible claims and expenses are paid for employees and their covered dependents. Claims are paid for all participants regardless of claims flow. This plan contains a stop-loss provision of \$200,000 per participant and an aggregate stop-loss provision of \$2,000,000.

Premium contributions are determined annually in a manner that ensures the pool is funded up to the aggregate stop loss attachment point of \$2,000,000. In the event of termination, all participating school districts' claims would be paid without regard to their individual account balances. The SRHCC Board of Directors has authority to return monies to an exiting school district subsequent to the settlement of all claims and expenditures.

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

School Employees Retirement System

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before <u>August 1, 2017</u> *	Eligible to Retire after <u>August 1, 2017</u>
Full benefits	Age 65 with 5 years of service credit or Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially reduced benefits	Age 60 with 5 years of service credit; or Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first 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.

Currently, 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.

Norton City School District

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 \$465,174 for fiscal year 2018. Of this amount \$3,296 is reported as an intergovernmental payable.

State Teachers Retirement System

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 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 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 credit. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50 or later.

Notes to the Basic Financial Statements

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

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

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

The School District's contractually required contribution to STRS was \$1,548,090 for fiscal year 2018. Of this amount \$211,889 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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability - prior measurement date	0.119634%	0.0977003%	
Proportion of the net pension liability - current measurement date	<u>0.117930%</u>	<u>0.0977714%</u>	
Change in proportionate share	<u>-0.001704%</u>	<u>0.000071%</u>	
Proportionate share of the net pension liability	\$7,046,051	\$23,225,813	\$30,271,864
Pension expense	(\$169,102)	(\$8,904,388)	(\$9,073,490)

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

Norton City School District

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 303,238	\$ 896,872	\$ 1,200,110
Changes of assumptions	364,357	5,079,740	5,444,097
Changes in proportionate share and difference between School District contributions and proportionate share of contributions	132,104	123,296	255,400
School District contributions subsequent to the measurement date	<u>465,174</u>	<u>1,548,090</u>	<u>2,013,264</u>
Total deferred outflows of resources	<u>\$ 1,264,873</u>	<u>\$ 7,647,998</u>	<u>\$ 8,912,871</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 33,446	\$ 766,479	\$ 799,925
Differences between expected and actual experience	-	187,191	187,191
Changes in proportionate share and difference between School District contributions and proportionate share of contributions	<u>76,641</u>	<u>-</u>	<u>76,641</u>
Total deferred inflows of resources	<u>\$ 110,087</u>	<u>\$ 953,670</u>	<u>\$ 1,063,757</u>

\$2,013,264 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 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:

Fiscal Year	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2019	\$ 327,427	\$ 1,096,125	\$ 1,423,552
2020	441,587	2,138,800	2,580,387
2021	84,856	1,501,396	1,586,252
2022	<u>(164,258)</u>	<u>409,917</u>	<u>245,659</u>
Total	<u>\$ 689,612</u>	<u>\$ 5,146,238</u>	<u>\$ 5,835,850</u>

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.

Notes to the Basic Financial Statements

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

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

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

Wage inflation	3 percent
Future salary increases, including inflation	3.5 percent to 18.2 percent
COLA or Ad Hoc COLA	2.5 percent
Investment rate of return	7.5 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an experience study that was completed June 30, 2015.

The cost of living adjustment was changed from a fixed 3 percent annual increase in the prior measurement date to a cost of living adjustment based on the change in the Consumer Price Index (CPI-W) not greater than 2.5 percent with a floor of zero percent beginning January 1, 2018. In addition, the Board has enacted a three year COLA suspension for benefit recipients in calendar years 2018, 2019, and 2020.

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

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

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<u>Asset class</u>	<u>Target allocation</u>	<u>Long term expected real rate of return</u>
Cash	1.00 %	0.50 %
US stocks	22.50	4.75
Non-US stocks	22.50	7.00
Fixed income	19.00	1.50
Private equity	10.00	8.00
Real assets	15.00	5.00
Multi-asset strategies	<u>10.00</u>	3.00
Total	<u>100.00 %</u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.5 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.5 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.5 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent), or one percentage point higher (8.5 percent) than the current rate.

	1% Decrease <u>(6.5%)</u>	Current discount rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
School District's proportionate share of the net pension liability	\$ 9,778,088	\$7,046,051	\$4,757,413

Actuarial Assumptions - STRS

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

Inflation	2.50 percent
Projected salary increases	2.50 percent at age 65 to 12.50 percent at age 20
Investment rate of return	7.45 percent, net of investment expenses
Payroll increases	3.00 percent
Cost-of-living adjustments (COLA)	0 percent, effective July 1, 2017

Notes to the Basic Financial Statements

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. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the long-term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation, (e) post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016, (f) post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016, (g) pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

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

Asset class	Target allocation **	Long term expected real rate of return*
Domestic equity	28.00 %	7.35 %
International equity	23.00	7.55
Alternatives	17.00	7.09
Fixed income	21.00	3.00
Real estate	10.00	6.00
Liquidity reserves	<u>1.00</u>	2.25
Total	<u>100.00</u> %	

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

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

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, 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.

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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	\$ 33,293,412	\$23,225,813	\$14,745,369

NOTE 11 – DEFINED BENEFITS OPEB PLANS

Net OPEB Liability

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

The net OPEB liability represents the School District's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB liability 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 OPEB are financed; however, the School District does receive the benefit of employees' services in exchange for compensation including OPEB.

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

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

School Employees Retirement System

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, prorated 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 \$63,865.

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 \$81,094 for fiscal year 2018. Of this amount \$63,987 is reported as an intergovernmental payable.

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State Teachers Retirement System

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

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

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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability - prior measurement date	0.120761%	0.0977003%	
Proportion of the net OPEB liability - current measurement date	<u>0.119114%</u>	<u>0.0977714%</u>	
Change in proportionate share	<u>-0.001647%</u>	<u>0.000071%</u>	
Proportionate share of the net OPEB liability	\$3,196,712	\$3,814,680	\$7,011,392
OPEB expense	\$163,170	(\$1,163,491)	(\$1,000,321)

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

Notes to the Basic Financial Statements

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ -	\$ 220,207	\$ 220,207
Changes in proportionate share and difference between School District contributions and proportionate share of contributions	-	3,261	3,261
School District contributions subsequent to the measurement date	<u>81,094</u>	<u>-</u>	<u>81,094</u>
Total deferred outflows of resources	<u>\$ 81,094</u>	<u>\$ 223,468</u>	<u>\$ 304,562</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 8,442	\$ 163,049	\$ 171,491
Changes of assumptions	303,352	307,285	610,637
Changes in proportionate share and difference between School District contributions and proportionate share of contributions	<u>34,452</u>	<u>-</u>	<u>34,452</u>
Total deferred inflows of resources	<u>\$ 346,246</u>	<u>\$ 470,334</u>	<u>\$ 816,580</u>

\$81,094 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 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:

Fiscal Year	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2019	\$ (124,502)	\$ (54,732)	\$ (179,234)
2020	(124,502)	(54,732)	(179,234)
2021	(95,130)	(54,732)	(149,862)
2022	(2,112)	(54,733)	(56,845)
2023	-	(13,970)	(13,970)
Thereafter	<u>-</u>	<u>(13,967)</u>	<u>(13,967)</u>
Total	<u>\$ (346,246)</u>	<u>\$ (246,866)</u>	<u>\$ (593,112)</u>

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.

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

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

Wage inflation	3 percent
Future salary increases, including inflation	3.5 percent to 18.2 percent
Investment rate of return	7.5 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 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

Notes to the Basic Financial Statements

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

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 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 net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	1% Decrease (<u>2.63%</u>)	Current discount rate (<u>3.63%</u>)	1% Increase (<u>4.63%</u>)
School District's proportionate share of the net OPEB liability	\$ 3,860,437	\$3,196,172	\$2,670,873
	1% Decrease (6.5% decreasing to <u>4.0%</u>)	Current trend rate (7.5% decreasing to <u>5.0%</u>)	1% Increase (8.5% decreasing to <u>6.0%</u>)
School District's proportionate share of the net OPEB liability	\$ 2,593,892	\$3,196,712	\$3,994,554

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Actuarial Assumptions – STRS

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

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

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:

Notes to the Basic Financial Statements

Asset class	Target allocation	Long term expected real rate of return*
Domestic equity	28.00 %	7.35 %
International equity	23.00	7.55
Alternatives	17.00	7.09
Fixed income	21.00	3.00
Real estate	10.00	6.00
Liquidity reserves	<u>1.00</u>	2.25
Total	<u>100.00</u> %	

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

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

The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

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

	1% Decrease <u>(3.13%)</u>	Current discount rate <u>(4.13%)</u>	1% Increase <u>(5.13%)</u>
School District's proportionate share of the net OPEB liability	\$ 5,121,147	\$3,814,680	\$2,782,145

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	<u>1% Decrease</u>	<u>Current trend rate</u>	<u>1% Increase</u>
School District's proportionate share of the net OPEB liability	\$ 2,650,276	\$3,814,680	\$5,347,172

NOTE 12 - LONG-TERM OBLIGATIONS

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

	<u>Restated Balance July 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30</u>	<u>Due within one year</u>
<u>Governmental activities</u>					
<u>General obligation bonds</u>					
2016 School Improvement					
Refunding, 1 - 4%					
Serial and term bonds	\$ 7,390,000	\$ -	\$ (45,000)	\$ 7,345,000	\$ 45,000
Capital appreciation bonds	199,923	-	-	199,923	-
Accretion on bonds	28,935	58,732	-	87,667	-
Premium	1,292,550	-	(54,711)	1,237,839	-
2014A School improvement, 2 - 4.25%					
Serial and term bonds	5,185,000	-	(10,000)	5,175,000	300,000
Capital appreciation bonds	59,287	-	-	59,287	-
Accretion on bonds	49,804	24,413	-	74,217	-
Premium	111,346	-	(5,247)	106,099	-
2014B School improvement, 2 - 4%					
Serial bonds	9,750,000	-	(10,000)	9,740,000	10,000
Premium	130,918	-	(7,025)	123,893	-
Total bonds	<u>24,197,763</u>	<u>83,145</u>	<u>(131,983)</u>	<u>24,148,925</u>	<u>355,000</u>
<u>Other obligations</u>					
Compensated absences	950,449	503,038	(92,330)	1,361,157	239,835
Capital leases payable	4,488	89,611	(20,851)	73,248	17,108
Total other liabilities	<u>954,937</u>	<u>592,649</u>	<u>(113,181)</u>	<u>1,434,405</u>	<u>256,943</u>
<u>Net pension liability</u>					
STRS	32,703,232	-	(9,477,419)	23,225,813	-
SERS	<u>8,756,083</u>	<u>-</u>	<u>(1,710,032)</u>	<u>7,046,051</u>	<u>-</u>
Total net pension liability	<u>41,459,315</u>	<u>-</u>	<u>(11,187,451)</u>	<u>30,271,864</u>	<u>-</u>
<u>Net OPEB liability</u>					
STRS	5,225,037	-	(1,410,357)	3,814,680	-
SERS	<u>3,442,130</u>	<u>-</u>	<u>(245,418)</u>	<u>3,196,712</u>	<u>-</u>
Total net OPEB liability	<u>8,667,167</u>	<u>-</u>	<u>(1,655,775)</u>	<u>7,011,392</u>	<u>-</u>
Governmental activities					
Total long-term liabilities	<u>\$ 75,279,182</u>	<u>\$ 675,794</u>	<u>\$ (13,088,390)</u>	<u>\$ 62,866,586</u>	<u>\$ 611,943</u>

Notes to the Basic Financial Statements

General Obligation Bonds: During fiscal year 2014, the School District issued \$12,999,287 and \$9,770,000 in School Improvement bonds. The School Improvement bonds are direct obligations of the School District for which its full faith and credit are pledged for repayment. The bonds were issued for providing resources for constructing, furnishing, and equipping a new high school and athletic complex with the first payment due on November 1, 2015. The bonds and interest are to be repaid by the debt service fund from the proceeds of property taxes collected from a levy that was approved by the taxpayers.

On September 28, 2016, the School District issued \$7,734,923 in General Obligation Bonds with interest rates ranging from 1% to 4% to advance refund \$7,735,000 of outstanding School Improvement Bonds with interest rates ranging from 3% to 5%. The bond proceeds consisted of bond principal and \$1,347,530 of premium. The net proceeds of \$8,934,844 (after payment of \$147,609 in underwriting fees, insurance, and other issuance costs) was deposited into an irrevocable trust with an escrow agent to provide for future debt service payments of the portion of School Improvement Bonds refunded. As a result of this issue, a portion of the School Improvement Bonds are considered to be redeemed and the liability has been removed. The difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources on the Statements of Net Position. The premium of the new debt was significant and is amortized over the life of the new bonds using the bonds outstanding method of amortization. All of the old bonds will be called and redeemed on November 1, 2020. The School District advance refunded the School Improvement Bonds to reduce their total debt service payments over the next 33 years and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$790,341.

Compensated absences will be paid from the fund from which the employee is paid. In prior years, this fund has primarily been the general fund. Capital lease obligations will be paid from the general fund.

There is not a repayment schedule for the net pension liability and net OPEB liability; however the School District pays pension and OPEB obligations related to employee compensation from the fund benefitting from their service.

Principal and interest requirements to amortize all bonds outstanding at June 30, 2018 are as follows:

Fiscal Year	School Improvement Bonds			
	Principal	Compounded Interest	Interest	Total
2019	\$ 355,000	\$ -	\$ 842,600	\$ 1,197,600
2020	321,401	33,599	836,281	1,191,281
2021	247,886	117,114	831,031	1,196,031
2022	390,000	-	823,575	1,213,575
2023	405,000	-	812,644	1,217,644
2024-2028	1,164,923	1,055,077	3,992,581	6,212,581
2029-2033	2,810,000	-	3,571,881	6,381,881
2034-2038	3,680,000	-	2,925,881	6,605,881
2039-2043	4,680,000	-	2,088,331	6,768,331
2044-2048	5,815,000	-	1,023,147	6,838,147
2049-2050	2,650,000	-	89,931	2,739,931
Total	<u>\$ 22,519,210</u>	<u>\$ 1,205,790</u>	<u>\$ 17,837,883</u>	<u>\$ 41,562,883</u>

Norton City School District

NOTE 13 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal year 2018, the School District entered into a new capitalized lease for the acquisition of copiers. The terms of the agreements provide options to purchase the equipment. Each lease meets the criteria of a capital lease as defined by generally accepted accounting standards, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the fund financial statements of governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Capital assets acquired by this lease have been capitalized as equipment in the amount of \$89,611, which is equal to the present value of the future minimum lease payments on the government-wide financial statements. Principal payments in the current fiscal year totaled \$16,363 for the new lease and \$4,488 on the old lease.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments at year-end.

Fiscal <u>Year</u>	Lease <u>Payments</u>
2019	\$ 20,028
2020	20,028
2021	20,028
2022	<u>20,028</u>
Total minimum lease payments	80,112
Less: amount representing interest	<u>(6,864)</u>
Total	<u>\$ 73,248</u>

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

The Metropolitan Regional Service Council (MRSC) is the computer service organization or Information Technology Center (ITC) used by the School District. MRSC is also known as Northeast Ohio Network for Educational Technology (NEOnet), which is the name used exclusively prior to their reorganization from a consortium to a council of governments. The superintendent from each member entity is appointed to the legislative body of MRSC known as the assembly. The assembly elects a board of directors consisting of nine members. These members comprise the managerial body of the council and meet at least five times yearly. The operations of MRSC are under the control of the board of directors and the executive director. The purpose of the MRSC is to develop and employ a computer system efficiently and effectively for the needs of the member school districts. All members are required to pay fees, charges and assessments as charged. The School District does not maintain an ongoing financial interest or an ongoing financial responsibility. Payments to MRSC are made from various funds. During fiscal year 2018, the School District contributed \$118,606 to MRSC. Financial information can be obtained by contacting the fiscal agent at 700 Graham Road, Cuyahoga Falls, Ohio 44221.

Notes to the Basic Financial Statements

The Four Cities Educational Compact is a jointly governed organization that provides for the vocational and special education needs of the students of four participating school districts. The four-member board consists of the superintendent from each of the participating school districts. Students may attend any vocational or special education class offered by any of the four districts. If a student elects to attend a class offered by a school district other than the school district in which the student resides, the school district of residence pays an instructional fee to the school district that offered the class.

Wadsworth City School District serves as the fiscal agent for this organization, collecting fees and distributing payments. The committee exercises total control over the operation of the compact, including budgeting, appropriating, contracting and designating management. All revenues are generated from charges for services. Financial information can be obtained by contacting the Treasurer at the Wadsworth City School District, 360 College St., Wadsworth, Ohio 44281.

The Ohio Schools Council Association (Council) is a jointly governed organization among school districts. The jointly governed organization was formed to purchase quality products and services at the lowest possible cost to the member districts. Each district supports the Council by paying an annual participation fee. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school district is limited to its representation on the Board. During fiscal year 2018, the School District paid \$5,102 to the Council in the form of program membership fees and \$43,286 for natural gas purchases. Financial information can be obtained by contacting William Zelei, the Executive Director of the Ohio Schools Council at 6393 Oak Tree Blvd., Suite 377, Independence, Ohio 44131.

NOTE 15 – FUND DEFICITS

As of June 30, 2018, several nonmajor special revenue funds had deficit fund balances. This deficit was caused by the application of generally accepted accounting principles. The general fund provides transfers to cover deficit balances in other funds; however, this is done when cash is needed rather than when accruals occur. The following funds had a deficit at year-end:

<u>Fund</u>	<u>Deficit</u>
District managed student activities	\$ 3,916
Title I	16,493
Title II-A	3,225
Miscellaneous federal grants	10,000

NOTE 16 - CONTINGENT LIABILITIES

The School District received financial assistance from Federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 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.

In the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2018.

Norton City School District

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, additional ODE adjustments for fiscal year 2018 are finalized. As a result, the finalized FTE adjustments for fiscal year 2018 had no impact on the School District's financial statement.

NOTE 17 - SET-ASIDES

The School District is required by the state law to annually set aside in the general fund an amount based on a statutory formula for the acquisition and construction of capital improvements. The School District may replace using general fund revenues with proceeds from various sources (offsets), such as bond or levy proceeds related to the acquisition, replacement, enhancement, maintenance or repair of permanent improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future fiscal years.

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

The following information describes the change in the year-end set-aside amounts for capital maintenance.

	Capital Maintenance Reserve
Set-aside reserve balance as of June 30, 2017	\$ -
Current year set-aside requirement	434,038
Current year offsets	<u>(754,939)</u>
Total	<u>\$ (320,901)</u>
Set-aside balance carried forward to future fiscal years	<u>\$ -</u>

NOTE 18 – CONSTRUCTION COMMITMENTS

As of June 30, 2018, the School District has construction commitments for the fieldhouse, demolition of old school buildings and the new high school. These commitments are in the permanent improvement and classroom facilities funds for \$77,082 and \$318,902 respectively.

Notes to the Basic Financial Statements

NOTE 19 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

For fiscal year 2018, the School District implemented the Governmental Accounting Standards Board (GASB) Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits other than Pensions.” 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	(\$12,077,637)
Adjustments:	
Net OPEB liability	(8,667,167)
Deferred outflow - payments subsequent to measurement date	<u>62,342</u>
Restated net position June 30, 2017	<u><u>(\$20,682,462)</u></u>

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.

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Required Supplementary Information

Norton City School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
Last Five Fiscal Years (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
School Employees Retirement System (SERS) of Ohio				
School District's proportion of the net pension liability	0.117930%	0.119634%	0.115377%	0.114086%
School District's proportionate share of the net pension liability	\$ 7,046,051	\$ 8,756,083	\$ 6,583,495	\$ 5,773,828
School District's covered employee payroll	\$ 4,223,900	\$ 3,673,100	\$ 3,437,314	\$ 3,276,089
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	166.81%	238.38%	191.53%	176.24%
Plan fiduciary net position as a percentage of total pension liability	69.50%	62.98%	69.16%	71.70%
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
State Teachers Retirement System (STRS) of Ohio				
School District's proportion of the net pension liability	0.0977714%	0.0977003%	0.0974650%	0.0967810%
School District's proportionate share of the net pension liability	\$ 23,225,813	\$ 32,703,232	\$ 26,936,464	\$ 23,540,486
School District's covered employee payroll	\$ 10,924,521	\$ 10,505,957	\$ 10,253,586	\$ 10,020,169
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	212.60%	311.28%	262.70%	234.93%
Plan fiduciary net position as a percentage of total pension liability	75.30%	66.80%	72.10%	74.70%

(1) Ten years of information will be presented as information becomes available. Information prior to 2014 is not available. The amounts presented are as of the School District's measurement date which is the prior fiscal year end.

2014

0.114086%

\$ 6,784,328

\$ 3,213,316

211.13%

65.52%

2014

0.0967810%

\$ 28,041,273

\$ 9,777,115

286.81%

69.30%

Norton City School District
Required Supplementary Information
Schedule of School District Contributions - Pension
Last Six Fiscal Years (1)

	2018	2017	2016	2015	2014
School Employees Retirement System (SERS) of Ohio					
Contractually required contribution	\$ 465,174	\$ 591,346	\$ 514,234	\$ 453,038	\$ 454,066
Contributions in relation to contractually required contribution	(465,174)	(591,346)	(514,234)	(453,038)	(454,066)
Contribution deficiency (excess)	<u>\$ -</u>				
School District covered employee payroll	\$ 3,445,733	\$ 4,223,900	\$ 3,673,100	\$ 3,437,314	\$ 3,276,089
Contributions as a percentage of covered employee payroll	13.50%	14.00%	14.00%	13.18%	13.86%

	2018	2017	2016	2015	2014
State Teachers Retirement System (STRS) of Ohio					
Contractually required contribution	\$ 1,548,090	\$ 1,529,433	\$ 1,470,834	\$ 1,435,502	\$ 1,302,622
Contributions in relation to contractually required contribution	(1,548,090)	(1,529,433)	(1,470,834)	(1,435,502)	(1,302,622)
Contribution deficiency (excess)	<u>\$ -</u>				
School District covered employee payroll	\$ 11,057,786	\$ 10,924,521	\$ 10,505,957	\$ 10,253,586	\$ 10,020,169
Contributions as a percentage of covered employee payroll	14.00%	14.00%	14.00%	14.00%	13.00%

(1) Ten years of information will be presented as information becomes available. Information prior to 2013 is not available.

2013

\$ 444,723

(444,723)

\$ -

\$ 3,213,316

13.84%

2013

\$ 1,271,025

(1,271,025)

\$ -

\$ 9,777,115

13.00%

Norton City School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net OPEB Liability
Last Two Fiscal Years (1)

	<u>2018</u>	<u>2017</u>
School Employees Retirement System (SERS) of Ohio		
School District's proportion of the net OPEB liability	0.119114%	0.120761%
School District's proportionate share of the net OPEB liability	\$ 3,196,712	\$ 3,442,130
School District's covered employee payroll	\$ 4,223,900	\$ 3,673,100
School District's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	75.68%	93.71%
Plan fiduciary net position as a percentage of total OPEB liability	12.46%	11.49%
	<u>2018</u>	<u>2017</u>
State Teachers Retirement System (STRS) of Ohio		
School District's proportion of the net OPEB liability	0.097771%	0.097700%
School District's proportionate share of the net OPEB liability	\$ 3,814,680	\$ 5,225,037
School District's covered employee payroll	\$ 10,924,521	\$ 10,505,957
School District's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	34.92%	49.73%
Plan fiduciary net position as a percentage of total OPEB liability	47.10%	37.30%

(1) Ten years of information will be presented as information becomes available. Information prior to 2017 is not available. The amounts presented are as of the School District's measurement date which is the prior fiscal year end.

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Norton City School District
Required Supplementary Information
Schedule of School District Contributions - OPEB
Last Six Fiscal Years (1)

	2018	2017	2016	2015	2014
School Employees Retirement System (SERS) of Ohio					
Contractually required contribution (2)	\$ 81,094	\$ 62,342	\$ 59,068	\$ 85,715	\$ 59,503
Contributions in relation to contractually required contribution	(81,094)	(62,342)	(59,068)	(85,715)	(59,503)
Contribution deficiency (excess)	<u>\$ -</u>				
School District covered employee payroll	\$ 3,445,733	\$ 4,223,900	\$ 3,673,100	\$ 3,437,314	\$ 3,276,089
Contributions as a percentage of covered employee payroll	2.35%	1.48%	1.61%	2.49%	1.82%

	2018	2017	2016	2015	2014
State Teachers Retirement System (STRS) of Ohio					
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ 100,202
Contributions in relation to contractually required contribution	-	-	-	-	(100,202)
Contribution deficiency (excess)	<u>\$ -</u>				
School District covered employee payroll	\$ 11,057,786	\$ 10,924,521	\$ 10,505,957	\$ 10,253,586	\$ 10,020,169
Contributions as a percentage of covered employee payroll	0.00%	0.00%	0.00%	0.00%	1.00%

(1) Ten years of information will be presented as information becomes available. Information prior to 2013 is not available.

(2) Includes surcharge

2013

\$ 58,060

(58,060)

\$ -

\$ 3,213,316

1.81%

2013

\$ 97,771

(97,771)

\$ -

\$ 9,777,115

1.00%

Norton City School District
Notes to Required Supplementary Information
For the Fiscal Year Ended June 30, 2018

Net Pension Liability

School Employees Retirement System (SERS) of Ohio

Changes in benefit terms: There was a change in benefit terms for fiscal year 2018. See the notes to the basic financial for benefit terms.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions. See the notes to the basic financials for the methods and assumptions in this calculation.

State Teachers Retirement System (STRS) of Ohio

Changes in benefit terms: There was a change in benefit terms for fiscal year 2018. See the notes to the basic financial for benefit terms.

Changes in assumptions: There was a change in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2018. See the notes to the basic financials for the methods and assumptions in this calculation.

Net OPEB Liability

School Employees Retirement System (SERS) of Ohio

Changes in assumptions:

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

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

State Teachers Retirement System (STRS) of Ohio

Changes in assumptions:

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.

**NORTON CITY SCHOOL DISTRICT
SUMMIT COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass Through Grantor Number	Federal Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Passed Through Ohio Department of Education				
<i>Child Nutrition Cluster:</i>				
National School Lunch Program	10.555	044552-3L60-18	\$ 484,440	\$ 51,326
Total U.S. Department of Agriculture			<u>484,440</u>	<u>51,326</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Passed Through Ohio Department of Education:				
Title I, Grants to Local Educational Agencies	84.010	044552-3M00-17	25,048	-
Title I, Grants to Local Educational Agencies	84.010	044552-3M00-18	207,777	-
Total Title I, Grants to Local Education Agencies			<u>232,825</u>	<u>-</u>
<i>Special Education Cluster (IDEA):</i>				
Special Education-Grants to States, IDEA-B	84.027	044552-3M20-18	445,222	-
Special Education - Preschool Program	84.173	044552-3C50-18	9,952	-
Total Special Education Cluster			<u>455,174</u>	<u>-</u>
Title II-A, Improving Teacher Quality State Grants	84.367	044552-3Y60-18	50,086	-
Title IV-A, Student Support and Academic Enrichment Progr:	84.424	044164-3H10	6,998	-
Total U.S. Department of Education			<u>745,083</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 1,229,523</u>	<u>\$ 51,326</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

**NORTON CITY SCHOOL DISTRICT
SUMMIT 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 Norton City School District (the District's) 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 District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C – INDIRECT COST RATE

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

NOTE D - CHILD NUTRITION CLUSTER

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

NOTE E – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The 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 District transferred the following amounts from 2018 to 2019 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amt. Transferred</u>
Title II - Supporting Effective Instruction	84.367	4,160

OHIO AUDITOR OF STATE KEITH FABER



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

Norton City School District
Summit County
4128 South Cleveland-Massillon Road
Norton, Ohio 44203

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Norton City School District, Summit County, (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 22, 2019 wherein we noted the District adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Keith Faber
Auditor of State

Columbus, Ohio

March 22, 2019

OHIO AUDITOR OF STATE KEITH FABER



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

Norton City School District
Summit County
4128 South Cleveland-Massillon Road
Norton, Ohio 44203

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited Norton City School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect Norton City School District's major federal program for the year ended June 30, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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



Keith Faber
Auditor of State

Columbus, Ohio

March 22, 2019

**NORTON CITY SCHOOL DISTRICT
SUMMIT COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

**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



NORTON CITY SCHOOL DISTRICT

SUMMIT 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**