



**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2018

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
JUNE 30, 2018**

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OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT

Southwest Licking Local School District
Licking County
927-A South Street
Pataskala, Ohio 43062

To the Board of Education:

Report on the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Licking Local School District, Licking County, Ohio, as of June 30, 2018, and the respective changes in modified cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Matters

Supplemental Information

Our audit was conducted to opine on the financial statements taken as a whole.

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

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

Other Information

We applied no procedures to Management's Discussion & Analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 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.



Keith Faber
Auditor of State

Columbus, Ohio

March 11, 2019

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SOUTHWEST LICKING LOCAL SCHOOL DISTRICT

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

As management of the Southwest Licking Local School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018, within the limitations of the District's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

- Net position of governmental activities increased approximately \$86.4 million, or 432 percent, in comparison with the prior year. The funds most affected by the increase in cash and investments were the Building Fund and Classroom Facilities Fund.
- The District's general receipts are primarily property taxes, income taxes, and intergovernmental aid. These receipts represent 15%, 4%, and 16% of the total cash received, respectively, for governmental activities during the year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was approximately \$16.0 million, or 40 percent of total General Fund disbursements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-wide Financial Statements. The Statement of Net Position – Modified Cash Basis presents the cash balances and investments of the governmental activities of the District at year end.

The Statement of Activities – Modified Cash Basis compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of disbursements with program receipts identifies how each governmental function draws from the District's general receipts.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT

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

Governmental Funds

The governmental fund financial statements provide a detailed view of the District’s governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the District’s programs. The District’s significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The District’s major governmental funds were the General Fund, Permanent Improvement Fund, Debt Service Fund, Building Fund, and Classroom Facilities Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

The District adopts an annual appropriated budget. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District’s own programs.

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

Government-wide Financial Analysis

An analysis of fiscal year 2018 in comparison with fiscal year 2017 follows for the Statement of Net Position – Modified Cash Basis:

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Cash and Cash Equivalents and Investments	\$ 106,353,191	\$ 19,975,842	432.41%
Total Assets	<u>106,353,191</u>	<u>19,975,842</u>	432.41%
Restricted for:			
Debt Service	4,341,011	1,453,964	198.56%
Capital Projects	80,070,053	-	100.00%
Permanent Improvements	2,233,311	1,594,868	40.03%
Unexpended Grants	264,757	338,973	-21.89%
Food Service	153,114	354,885	-56.86%
Extracurricular Activities	209,573	179,400	16.82%
Classroom Facilities Maintenance	314,987	-	100.00%
Other Purposes	24,490	24,130	1.49%
Unrestricted	18,741,895	16,029,622	16.92%
Total Net Position	<u>\$ 106,353,191</u>	<u>\$ 19,975,842</u>	432.41%

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT

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

Government-wide Financial Analysis (continued)

As mentioned previously, net position of governmental activities increased approximately \$86.4 million, or 432 percent, in comparison with the prior year.

A significant portion of the District's net position (82 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$18.7 million) may be used to meet the District's ongoing obligations to citizens and creditors.

An analysis of fiscal year 2018 in comparison with fiscal year 2017 follows for the Statement of Activities – Modified Cash Basis:

	2018	2017
Program Receipts		
Charges for Services	\$ 1,882,432	\$ 1,696,303
Operating Grants	2,271,403	2,131,945
General Receipts		
Property Taxes	21,155,059	18,684,470
Income Taxes	5,916,921	5,498,080
Grants and Entitlements	22,152,183	18,692,791
Payments in Lieu of Taxes	889,693	397,251
Sale of Bonds/Notes	81,737,195	-
Investment Earnings	1,092,537	240,911
Miscellaneous	274,360	171,982
Total Receipts	137,371,783	47,513,733
Program Disbursements		
Instructional	24,404,647	23,000,988
Support Services	15,086,795	14,268,748
Non-instructional	1,775,215	1,499,590
Extra Curricular Activities	1,047,064	848,272
Capital Outlay	3,532,091	2,285,977
Principal Payments	2,490,000	2,440,736
Interest and Fiscal Charges	2,081,291	329,227
Bond Issuance Costs	577,331	-
Total Disbursements	50,994,434	44,673,538
Change in Net Position	86,377,349	2,840,195
Net Position at Beginning of Year	19,975,842	17,135,647
Net Position at End of Year	\$ 106,353,191	\$ 19,975,842

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT

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

Government-wide Financial Analysis (continued)

Property taxes and grants and entitlements increased significantly in comparison with the prior fiscal. The increase is a result of the new Ohio Facilities Construction Commission (OFCC) bond levy and OFCC Grant proceeds received during the fiscal year.

Investment earnings increased significantly in comparison with the prior fiscal year. This increase is the result of an increase in interest received from the investments related to the OFCC to build a new elementary school, renovate existing schools, and demolish previous additions.

Sale of Bonds/Notes receipts increased significantly due to the District issuing bonds at a premium, totaling \$81,737,195, during the fiscal year.

Capital outlay disbursements increased significantly in comparison with the prior fiscal year. This increase is the result of additional repairs and maintenance expenditures, services related to asbestos remediation in the old buildings, and the start of the District’s OFCC project.

General receipts represent 97 percent of the District’s total receipts, and of this amount, 20 percent are local taxes. State and federal grants and entitlements make up 17 percent of the District’s general receipts. Other receipts are insignificant and somewhat unpredictable revenue sources.

The major program disbursements for governmental activities are for instruction and support services, which account for 48 and 30 percent of all governmental disbursements, respectively.

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

	Fiscal Year 2018		Fiscal Year 2017	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Program disbursements				
Instructional	\$ 24,404,647	\$ 22,823,571	\$ 23,000,988	\$ 21,658,632
Support services	15,086,795	14,523,875	14,268,748	13,820,885
Non-instructional	1,775,215	226,763	1,499,590	(23,792)
Extra Curricular Activities	1,047,064	585,677	848,272	333,625
Capital Outlay	3,532,091	3,532,091	2,285,977	2,285,977
Debt Service	5,148,622	5,148,622	2,769,963	2,769,963
Total	\$ 50,994,434	\$ 46,840,599	\$ 44,673,538	\$ 40,845,290

The dependence upon tax and other general receipts is apparent, as 94 percent of instructional activities are supported through taxes and other general receipts. For all Governmental activities, support from general receipts is 92 percent. The District’s taxpayers and unrestricted grants and entitlements from the State are by far the primary support for the District’s students.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT

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

Financial Analysis of the District’s Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

As of the end of the current fiscal year, the District’s governmental funds reported combined ending fund balances of approximately \$106.4 million, an increase of approximately \$86.4 million in comparison with the prior fiscal year.

Of this amount, approximately \$16.0 million is available for spending at the District’s discretion. The remainder of fund balance is nonspendable (\$24,490), restricted (\$87.6 million), committed (\$110,597) or assigned (\$2.6 million).

An analysis of fiscal year 2018 in comparison with fiscal year 2017 follows:

<u>Fund:</u>	<u>As of June 30, 2018</u>	<u>As of June 30, 2017</u>	<u>Change</u>
General Fund	\$ 16,356,385	\$ 16,053,752	1.89%
Permanent Improvement Fund	2,233,311	1,594,868	40.03%
Debt Service Fund	4,341,011	1,453,964	198.56%
Building Fund	17,438,401	-	100.00%
Classroom Facilities Fund	62,631,652	-	100.00%
Other Governmental Funds	3,352,431	873,258	283.90%
Total Fund Balance	<u>\$ 106,353,191</u>	<u>\$ 19,975,842</u>	432.41%

The fund balance of the General Fund increased \$302,633 during the fiscal year. General Fund receipts increased approximately \$2.1 million, primarily as a result of an increase in property taxes and state assistance received. General Fund disbursements also increased approximately \$2.6 million. This primarily represents a significant increase in capital outlay expenditures related to additional repairs and maintenance expenditures, services related to asbestos remediation in the old buildings, and the construction of a new administration building.

The Permanent Improvement Fund balance increased \$638,443 during the fiscal year. This increase represents the amount in which property tax and related receipts exceeded capital outlay and transfers out to the debt service fund.

The Debt Service Fund balance increased approximately \$2.9 million during the fiscal year. This increase represents the amount in which property tax and related receipts, transfers in from the permanent improvement fund, and bond premiums related to the bond proceeds exceeded debt service disbursements.

The District established the Building Fund during the fiscal year. The fund reported a positive fund balance at the end of the fiscal year as a result of receipts received related to the issuance of bonds exceeding capital outlay disbursements and bond issuance costs.

The District established the Classroom Facilities Fund during the fiscal year. The fund reported a positive fund balance at the end of the fiscal year as a result of transfers in from the Building Fund exceeding capital outlay disbursements.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT

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

General Fund Budget Information

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

Final estimated resources were less than original estimated resources by \$168,469 while final appropriations exceeded original appropriations by approximately \$2.7 million.

Actual receipts and other financing sources exceeded the final receipts and other financing sources estimate by \$900,150, primarily as a result of greater than expected property, income, and intergovernmental receipts. Final appropriations exceeded actual expenditures and other financing uses by \$685,600 as a result of conservative spending.

Capital Assets

The District is not required to disclose capital assets on the modified cash basis of accounting but has elected to do so in the note disclosures. At the end of the fiscal year, the District had approximately \$28.3 million (net of accumulated depreciation) invested in capital assets, an increase of approximately \$1.7 million in comparison with the prior fiscal year. This increase represents the amount by which current year additions of approximately \$3.0 million exceeded depreciation expense of approximately \$1.2 million and net disposals of \$76,935. Detailed information regarding capital asset activity can be found in the Note 10 to the basic financial statements.

Debt

At the end of the fiscal year, the District had total debt outstanding of approximately \$92.2 million, an increase of approximately \$79.1 million from fiscal year 2017. This increase represents new issuances and current year accretion totaling \$81.8 million offset by principal payments and premium amortization of approximately \$2.7 million.

Detailed information regarding long-term obligations can be found in Note 11 to the basic financial statements. At fiscal year-end, the District was not subject to state consents/special needs approval due to its participation in a Commission program and qualifying for an exception to the approval requirements.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information you may contact Richard D. Jones, Treasurer/CFO, Southwest Licking Local School District, 927-A South Street, Pataskala, Ohio 43062 or E-Mail at rdjones@laca.org.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

STATEMENT OF NET POSITION - MODIFIED CASH BASIS
AS OF JUNE 30, 2018

	Governmental Activities
Assets	
Cash and Cash Equivalents	\$ 39,400,857
Investments	66,927,090
Cash in a Segregated Account	754
Restricted Cash and Cash Equivalents	24,490
Total Assets	106,353,191
Net Position	
Restricted for:	
Debt Service	4,341,011
Capital Projects	80,070,053
Permanent Improvements	2,233,311
State and Federal Grants	264,757
Food Services	153,114
Extracurricular Activities	209,573
Classroom Facilities Maintenance	314,987
Other Purposes	24,490
Unrestricted	18,741,895
Total Net Position	\$ 106,353,191

See accompanying notes to the basic financial statements.

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**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2018

	General Fund	Permanent Improvement Fund	Debt Service Fund	Building Fund
Assets:				
Cash and Cash Equivalents	\$ 16,331,895	\$ 2,233,311	\$ 4,341,011	\$ 1,354,330
Investments	-	-	-	16,084,071
Cash in a Segregated Account	-	-	-	-
Restricted Cash and Cash Equivalents	24,490	-	-	-
Total Assets	\$ 16,356,385	\$ 2,233,311	\$ 4,341,011	\$ 17,438,401
Fund Balances:				
Nonspendable:				
Unclaimed Monies	\$ 24,490	\$ -	\$ -	\$ -
Restricted for:				
Debt Service	-	-	4,341,011	-
Capital Projects	-	-	-	17,438,401
Permanent Improvements	-	2,233,311	-	-
State and Federal Grants	-	-	-	-
Food Services	-	-	-	-
Extracurricular Activities	-	-	-	-
Classroom Facilities Maintenance	-	-	-	-
Other Purposes	233	-	-	-
Committed for:				
Underground Storage	11,000	-	-	-
Capital Projects	99,597	-	-	-
Assigned for:				
School Support	96,903	-	-	-
Instruction	20,307	-	-	-
Support Services	98,083	-	-	-
Capital Projects	-	-	-	-
Unassigned	16,005,772	-	-	-
Total Fund Balances	16,356,385	2,233,311	4,341,011	17,438,401
Total Fund Balances	\$ 16,356,385	\$ 2,233,311	\$ 4,341,011	\$ 17,438,401

See accompanying notes to the basic financial statements.

Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
\$ 11,788,633	\$ 3,351,677	\$ 39,400,857
50,843,019	-	66,927,090
-	754	754
-	-	24,490
<u>\$ 62,631,652</u>	<u>\$ 3,352,431</u>	<u>\$ 106,353,191</u>
\$ -	\$ -	\$ 24,490
-	-	4,341,011
62,631,652	-	80,070,053
-	-	2,233,311
-	264,757	264,757
-	153,114	153,114
-	209,573	209,573
-	314,987	314,987
-	-	233
-	-	11,000
-	-	99,597
-	-	96,903
-	-	20,307
-	-	98,083
-	2,410,000	2,410,000
-	-	16,005,772
<u>62,631,652</u>	<u>3,352,431</u>	<u>106,353,191</u>
<u>\$ 62,631,652</u>	<u>\$ 3,352,431</u>	<u>\$ 106,353,191</u>

See accompanying notes to the basic financial statements.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	Permanent Improvement Fund	Debt Service Fund	Building Fund
Receipts:				
Property Taxes	\$ 16,047,339	\$ 1,542,282	\$ 3,565,438	\$ -
Income Taxes	5,916,921	-	-	-
Payments in Lieu of Taxes	-	889,693	-	-
Intergovernmental	19,035,951	207,028	257,763	-
Charges for Services	12,270	-	-	-
Interest	336,739	27,190	-	158,988
Tuition and Fees	780,776	-	-	-
Extracurricular Activities	161,085	-	-	-
Other	264,212	11,461	-	-
Total Receipts	42,555,293	2,677,654	3,823,201	158,988
Disbursements:				
Instruction:				
Regular	15,835,285	-	-	-
Special	5,463,135	-	-	-
Vocational	288,926	-	-	-
Other	1,726,503	-	-	-
Support services:				
Pupils	2,197,382	-	-	-
Instructional Staff	1,260,251	217,065	-	-
Board of Education	91,690	-	-	-
Administration	3,369,693	-	-	-
Fiscal Services	896,711	22,529	49,292	4,976
Business Operations	61,065	-	-	-
Operation and Maintenance of Plant	2,862,934	95,805	-	-
Pupil Transportation	2,908,486	314,890	-	-
Central	458,605	17,414	-	-
Non-instructional Services	9,814	-	-	-
Extracurricular Activities	815,259	-	-	-
Capital Outlay	1,636,376	167,504	-	307,521
Debt service:				
Principal Retirement	-	-	2,490,000	-
Interest and Fiscal Charges	-	-	2,081,291	-
Bond Issuance Costs	-	-	-	577,331
Total Disbursements	39,882,115	835,207	4,620,583	889,828
Excess (Deficiency) of Receipts Over (Under) Disbursements	2,673,178	1,842,447	(797,382)	(730,840)
Other Financing Sources (Uses):				
Donations	21,434	-	-	-
Proceeds from Sale of Assets	10,000	-	-	-
Insurance Proceeds	8,021	-	-	-
Premium on Bonds/Notes	-	-	2,790,960	581,235
Proceeds from the Sale of Bonds/Notes	-	-	-	78,365,000
Transfers In	-	-	893,469	-
Transfers Out	(2,410,000)	(1,204,004)	-	(60,776,994)
Total Other Financing Sources (Uses)	(2,370,545)	(1,204,004)	3,684,429	18,169,241
Net Change in Fund Balances	302,633	638,443	2,887,047	17,438,401
Fund Balance Beginning of Year	16,053,752	1,594,868	1,453,964	-
Fund Balance End of Year	\$ 16,356,385	\$ 2,233,311	\$ 4,341,011	\$ 17,438,401

See accompanying notes to the basic financial statements.

Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 21,155,059
-	-	5,916,921
-	-	889,693
2,651,441	2,254,699	24,406,882
-	633,192	645,462
555,692	13,928	1,092,537
-	-	780,776
-	240,967	402,052
-	13,303	288,976
<u>3,207,133</u>	<u>3,156,089</u>	<u>55,578,358</u>
-	12,471	15,847,756
-	1,026,477	6,489,612
-	-	288,926
-	51,850	1,778,353
-	52,923	2,250,305
-	186,742	1,664,058
-	-	91,690
-	688	3,370,381
17,654	-	991,162
-	-	61,065
-	-	2,958,739
-	-	3,223,376
-	-	476,019
-	1,765,401	1,775,215
-	231,805	1,047,064
1,334,821	85,869	3,532,091
-	-	2,490,000
-	-	2,081,291
-	-	577,331
<u>1,352,475</u>	<u>3,414,226</u>	<u>50,994,434</u>
<u>1,854,658</u>	<u>(258,137)</u>	<u>4,583,924</u>
-	15,375	36,809
-	1,400	11,400
-	-	8,021
-	-	3,372,195
-	-	78,365,000
60,776,994	2,720,535	64,390,998
-	-	(64,390,998)
<u>60,776,994</u>	<u>2,737,310</u>	<u>81,793,425</u>
62,631,652	2,479,173	86,377,349
-	873,258	19,975,842
<u>\$ 62,631,652</u>	<u>\$ 3,352,431</u>	<u>\$ 106,353,191</u>

See accompanying notes to the basic financial statements.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget	Actual	Variance Over/(Under)
Receipts:				
Property Taxes	\$ 15,864,965	\$ 15,864,965	\$ 16,047,339	\$ 182,374
Income Taxes	5,752,250	5,752,250	5,916,921	164,671
Payments in Lieu of Taxes	5,000	-	-	-
Intergovernmental	18,989,694	18,834,152	19,035,951	201,799
Charges for Services	12,000	12,000	12,270	270
Earnings on Investments	220,000	220,000	334,815	114,815
Tuition & Fees	639,630	639,630	780,776	141,146
Extracurricular Activities	140,790	140,790	146,690	5,900
Miscellaneous	146,948	139,021	224,673	85,652
Total Receipts	41,771,277	41,602,808	42,499,435	896,627
Disbursements:				
Instruction:				
Regular	16,019,969	16,012,578	15,854,404	158,174
Special	5,490,863	5,491,363	5,464,323	27,040
Vocational	292,592	278,324	288,926	(10,602)
Other	1,751,808	1,751,808	1,726,503	25,305
Support Services:				
Pupils	2,292,079	2,291,730	2,221,248	70,482
Instructional Staff	1,338,883	1,335,183	1,276,573	58,610
Board of Education	121,417	121,417	91,690	29,727
Administration	3,294,383	3,290,403	3,371,613	(81,210)
Fiscal	941,927	942,427	898,071	44,356
Business	80,636	80,956	92,876	(11,920)
Operation and Maintenance of Plant	3,012,351	3,033,051	2,862,934	170,117
Pupil Transportation	2,887,829	2,886,829	2,908,235	(21,406)
Central	470,449	481,849	458,605	23,244
NonInstructional Services	14,000	14,000	9,814	4,186
Extracurricular Activities	568,281	828,281	766,568	61,713
Capital Outlay	1,804,154	1,804,154	1,735,973	68,181
Total Disbursements	40,381,621	40,644,353	40,028,356	615,997
Excess of Receipts Over (Under) Disbursements	1,389,656	958,455	2,471,079	1,512,624
Other Financing Sources (Uses):				
Donations	-	-	20,105	20,105
Sale of Capital Assets	1,000	1,000	10,000	9,000
Insurance Proceeds	-	-	8,021	8,021
Transfers -In	464,000	464,000	430,397	(33,603)
Transfers -Out	(500,000)	(2,910,000)	(2,840,397)	69,603
Total Other Financing Sources (Uses)	(35,000)	(2,445,000)	(2,371,874)	73,126
Net Change in Fund Balance	1,354,656	(1,486,545)	99,205	1,585,750
Fund Balances at Beginning of Year	14,074,099	14,074,099	14,074,099	-
Prior Year Encumbrances Appropriated	1,857,191	1,857,191	1,857,191	-
Fund Balances at End of Year	\$ 17,285,946	\$ 14,444,745	\$ 16,030,495	\$ 1,585,750

See accompanying notes to the basic financial statements.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
MODIFIED CASH BASIS - FIDUCIARY FUNDS
AS OF JUNE 30, 2018**

	<u>Agency Fund</u>
Assets	
Cash and Cash Equivalents	\$ 29,877
Total Assets	<u>\$ 29,877</u>
Liabilities	
Held for Student Liabilities	\$ 29,877
Total Liabilities	<u>\$ 29,877</u>

See accompanying notes to the basic financial statements.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 1 – DESCRIPTION OF THE REPORTING ENTITY

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

The District was established in 1953 through the consolidation of existing land areas and school districts. The District serves an area of approximately 65 square miles. It is located in Licking County, and includes the City of Pataskala, the Village of Kirkersville, and portions of Etna, Harrison, St. Albans, and Union Townships in Licking County and Liberty Township in Fairfield County. The District is staffed by 189 classified personnel and 271 certified full-time personnel who provide services to 4,220 students and other community members. The District currently operates six instructional buildings, one administrative building, and one support service building.

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

The following activities are included within the reporting entity:

Private School – Liberty Christian Academy, a private school, operates within the District’s boundaries. Current state legislation provides funding to the private school. This money is received and disbursed on behalf of the private school by the Treasurer of the District, as directed by the private school in accordance with State rules and regulations. This activity is reflected in a special revenue fund in Other Governmental Funds for financial reporting purposes.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on the modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. Following are the more significant of the District’s accounting policies.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of Presentation

The District's basic financial statements consist of government-wide financial statements, including a Statement of Net Position – Modified Cash Basis and a Statement of Activities – Modified Cash Basis, and fund financial statements – modified cash basis which provide a more detailed level of financial information.

Government-Wide Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position – Modified Cash Basis and the Statement of Activities – Modified Cash Basis) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental receipts, are reported separately from business-type activities (the District has none), which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities – Modified Cash Basis compares disbursements with program receipts for each function or program of the District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the District's general receipts.

Fund Financial Statements

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

(b) Fund Accounting

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

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Fund Accounting (Continued)

Governmental Funds

The District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The District only reports the following major governmental funds:

General Fund — The General Fund is the District’s primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. The General Fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Permanent Improvement Fund — The Permanent Improvement Fund is used to account for financial resources to be used for the acquisition and/or construction of major capital facilities.

Debt Service Fund — The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Building Fund — The Building Fund is used to account for monies received and expended in connection with the renovation and construction of District buildings.

Classroom Facilities Fund — The Classroom Facilities Fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Facilities Construction Commission for the building and equipping of classroom facilities.

Other Governmental Funds of the District account for specific revenue sources that are restricted for specified purposes, other than debt service or capital projects, and funds assigned by the District for capital projects. These funds are aggregated and shown in a single column on the financial statements.

Proprietary Funds – Proprietary funds consist of enterprise funds, which are used to report any activity for which a fee is charged to external users for goods or services, and internal service funds, which are used to allocate costs of centralized services. The District reports no proprietary funds.

Fiduciary Funds — Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for others and therefore cannot be used to support the District’s own programs. Fiduciary funds include pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The District's only fiduciary funds are agency funds which account for student activities and OHSAA activities.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements; however, interfund services provided and used are not eliminated.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of Accounting

Although required by Ohio Administrative Code 117-2-03(B) to prepare its annual financial statements and notes in accordance with GAAP, the District chooses to prepare its financial statements using the modified cash basis of accounting. The modified cash basis of accounting is a comprehensive basis of accounting other than GAAP. With the exception of investment purchases and sales, receipts are recorded in the District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

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

(d) Budgetary Data

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the certificate of estimated resources and the appropriations resolution, each of which are prepared on the budgetary basis of accounting. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The legal level of budgetary control has been established by the Board of Education at the fund level for all funds. Although the legal level of control was established at the fund level of expenditures, the District has elected to present the budgetary statement comparison at the fund and function level of disbursements for the General Fund. Any budgetary modifications at the fund level may only be made by the Board of Education. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

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

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Cash and Investments

To improve cash management, cash received by the District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Interest in the pool is presented as "Cash and Cash Equivalents" on the financial statements. Investments of the District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

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

During the fiscal year, the District invested in money market funds, certificates of deposit, commercial paper, federal agency securities, US Treasury securities, and the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments are reported cost, except for the money market fund and STAR Ohio. The District's money market fund investment is recorded at the amount reported by US Bank.

During fiscal year 2018, the District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The District measures 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 an NAV per share that approximates fair value.

For the fiscal year 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. These funds include the General Fund, Permanent Improvement Fund, Food Service, Public School Support, District Managed Student Activities and Auxiliary Services. In addition, interest earnings on Debt Service Fund investments are recorded entirely in the General Fund. Of the amount reported in the General Fund, approximately \$57,054 was assigned from other District funds.

(f) Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The District's restricted assets consist of unclaimed funds.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Inventory and Prepaid Items

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

(h) Capital Assets and Depreciation

Acquisitions of property, plant and equipment are recorded as disbursements when paid. Capital assets are defined as assets with an initial, individual cost of more than \$5,000. These items are not reflected as assets in the accompanying financial statements. Depreciation has not been reported for any capital assets.

Useful lives for capital assets are as follows:

Land Improvements	10 - 30
Buildings and Improvements	20 - 50
Furniture, Fixtures and Equipment	5 - 20
Vehicles	5 - 10

(i) Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the District's modified cash basis of accounting.

(j) Employer Contributions to Cost-Sharing Pension Plans

The District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 12 and 13, the employer contributions consist of pension and postretirement health care benefits.

(k) Long-Term Obligations

The District's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

(l) Net Position

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net cash position is available. On the government-wide Statement of Net Position, none of the restricted net position is a result of enabling legislation. Net position restricted for other purposes primarily represents unclaimed funds.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Fund Balances

In accordance with Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting, the District classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories were used:

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by policies of the District’s Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

The District applies restricted resources first when disbursements are incurred for purposes for which both restricted and unrestricted (committed, assigned and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used. The District considers assigned and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund loans are reported as advances-in and advances-out. Advances are not reflected as assets and liabilities in the accompanying financial statements. Interfund transfers and advances are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the basic financial statements. Interfund activity between governmental funds is eliminated on the Statement of Net Position – Modified Cash Basis and the Statement of Activities – Modified Cash Basis.

(o) Pensions/Other Postemployment Benefits (OPEB)

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

NOTE 3 – COMPLIANCE

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

NOTE 4 – BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major difference between the budget basis and modified cash basis is that encumbrances are treated as expenditures (budget basis) rather than as restricted, committed, or assigned fund balance (modified cash basis).

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 4 – BUDGETARY BASIS OF ACCOUNTING (Continued)

A reconciliation of the modified cash and budgetary statements of the General Fund is as follows:

Change in Fund Balance - Modified Cash Basis	\$	302,633
Public School Support Fund		14,559
Encumbrances		(217,987)
Change in Fund Balance- Budgetary Basis	\$	99,205

With the implementation of GASB Statement No. 54, *Fund Balance Reporting*, the District’s Public School Support Fund and Underground Storage Tank Fund, no longer meet the special revenue fund type criteria for reporting in the fiscal year-end external financial statements. As such, these funds are presented as part of the District’s General Fund in the year-end financial statements. The budgetary comparison information in the fiscal year-end financial statements is the legally adopted budget for the General Fund, without modification for the funds no longer meeting the special revenue criteria.

NOTE 5 – DEPOSITS AND INVESTMENTS

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

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

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

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

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

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal 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 the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Commercial paper and bankers' acceptance notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

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.

Deposits

Custodial Credit Risk - Custodial credit risk for deposits is the risk that, in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, the carrying amount of the District's deposits was \$6,624,456 and the bank balance was \$8,094,265. Of the District's bank balance, \$7,881,217 was covered by Federal Deposit Insurance Corporation (FDIC) and the remaining balance was uninsured and collateralized. The District's financial institution was approved for a reduced collateral rate of 50 percent through the Ohio Pooled Collateral System.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)

The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by:

1. Eligible securities pledged to the District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or
2. Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

Investments

The fair value of these investments is not materially different than measurement value.

At fiscal year end, the District had the following investments:

Investment Type	Value	Percent of Total	Maturities	
			Within 1 Year	Within 2-5 Years
STAR Ohio	\$ 14,472,527	15%	\$ 14,472,527	\$ -
Money Market Funds	1,708,812	2%	102,614	-
Commercial Paper	35,937,719	36%	35,937,719	-
Certificate of Deposit	8,739,975	9%	993,000	7,746,975
Federal Agency Securities	34,034,247	34%	3,462,758	30,571,489
US Treasury Securities	4,865,332	4%	-	4,865,332
Total	\$ 99,758,612	100%	\$ 54,968,618	\$ 43,183,796

Interest Rate Risk - The District’s investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years. The Treasurer cannot make investments which he does not reasonably believe can be held until the maturity date.

Credit Risk – At fiscal year-end, the District’s investments in STAR Ohio, federal agency securities, US Treasury securities, and commercial paper were rated AAAm, AA, and A1 by Standard & Poor’s, respectively. The District’s money market funds and negotiable certificates of deposit were not rated. The District has no investment policy that addresses credit risk.

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NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the District’s investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment’s counterparty, not in the name of the District. Ohio law requires the fair value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The federal agency securities and commercial paper are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty’s trust department or agent, but not in the District’s name. The District has no investment policy dealing with investment custodial credit risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk - The District places no limit on the amount it may invest in any one issuer except for commercial paper. The Treasurer may not invest an amount that exceeds 10 percent of the outstanding commercial paper of the issuing entity. The District’s investments in the categories of STAR Ohio, commercial paper, certificates of deposit, and federal agency securities exceeded 5 percent of the District’s total investments.

NOTE 6 – INCOME TAXES

The District levies a voted continuing tax of .75 percent for general operations on the income of residents and of estates. The tax went into effect on February 15, 1990 and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the District after withholding amounts for administrative fees and estimated refunds. Income tax receipts are credited to the General Fund.

NOTE 7 – TAX ABATEMENTS

Under Community Reinvestment Area (CRA) property tax abatement agreements entered into by Etna Township, the District’s property tax revenues were reduced by \$827,199 during the fiscal year. If these property values were not abated, the property values would be included in the calculation of the District Local Wealth Per Pupil and could have had a negative impact on the amount of school foundation the school district receives. In connection with the District’s approval of the CRA agreements, the District receives income tax sharing compensation from Etna Township through Joint Economic Development Zone (JEDZ) contracts administered by the City of Newark. In addition, the District has entered into a compensation agreement with Etna Retail DC LLC to provide an annual donation of \$24,566 during the fifteen years term of the agreement. During the fiscal year, the District received \$865,127 and \$24,566 under the JEDZ Contract and Etna Retail DC LLC agreement, respectively.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 8 – PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District’s fiscal year runs from July through June. First half tax collections are received by the 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 in business) located in the District. Real property tax revenues received in calendar year 2018 represent collections of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed values 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 semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2018 represent collections of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 became a lien December 31, 2016, were levied after April 1, 2017, and are collected in 2018 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually.

If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

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

	<u>2017 Second Half Collections</u>		<u>2018 First Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential	\$ 508,218,280	81.83%	\$ 533,616,550	81.04%
Commercial/Industrial and Public Utility Real	76,157,106	12.26%	88,222,722	13.40%
Public Utility Personal	36,694,640	5.91%	36,638,860	5.56%
Total	<u>\$ 621,070,026</u>	<u>100.00%</u>	<u>\$ 658,478,132</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$ 37.70		\$ 41.70	

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 9 – TRANSFERS

The District makes all debt service payments from the Debt Service Fund. The Permanent Improvement Fund subsequently reimburses the Debt Service Fund for payments made on the Permanent Improvement Tax Anticipation Notes. During fiscal year 2018, the Permanent Improvement Fund reimbursed the Debt Service Fund \$893,469.

During the fiscal year, the District transferred \$60,776,994 from the Building Fund to the Classroom Facilities Fund for the purpose of constructing, renovating, and improving school facilities.

During the fiscal year, the District transferred \$310,535 from the Permanent Improvement Fund to the Classroom Facilities Maintenance Fund for the purpose of financing maintenance related to the District’s school facilities.

The District also transferred \$2,410,000 from the General Fund to the Capital Projects Fund for the purpose financing future capital projects.

NOTE 10 – CAPITAL ASSETS

The District has elected to disclose capital assets, and the activity for the fiscal year follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
Nondepreciable Capital Assets					
Land	\$ 3,962,164	\$ 116,274	\$ -	\$ -	\$ 4,078,438
Construction in Progress	-	1,564,261	-	-	1,564,261
Total Nondepreciable Assets	3,962,164	1,680,535	-	-	5,642,699
Depreciable Capital Assets					
Land Improvements	1,474,259	-	-	-	1,474,259
Buildings	34,893,626	788,042	-	-	35,681,668
Furniture and Equipment	4,705,062	216,335	(522,808)	-	4,398,589
Vehicles	3,660,897	331,427	(55,000)	-	3,937,324
Total Depreciable Assets	44,733,844	1,335,804	(577,808)	-	45,491,840
Less Accumulated Depreciation					
Land Improvements	(925,011)	(56,189)	-	-	(981,200)
Buildings	(14,261,601)	(834,208)	-	-	(15,095,809)
Furniture and Equipment	(4,330,129)	(76,546)	445,873	-	(3,960,802)
Vehicles	(2,587,905)	(248,847)	55,000	-	(2,781,752)
Total Accumulated Depreciation	(22,104,646)	(1,215,790)	500,873	-	(22,819,563)
Depreciable Capital Assets, Net of Accumulated Depreciation	22,629,198	120,014	(76,935)	-	22,672,277
Total Capital Assets, Net	\$ 26,591,362	\$ 1,800,549	\$ (76,935)	\$ -	\$ 28,314,976

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 – LONG TERM OBLIGATIONS

A summary of changes in long-term obligations for the fiscal year ended June 30, 2018 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Refunding Bonds Series 2003B</u>					
Capital Appreciation Bonds	\$ 338,152	\$ 11,848	\$ (350,000)	\$ -	\$ -
<u>Refunding Bonds Series 2005</u>					
Capital Appreciation Bonds	1,112,510	37,490	(1,150,000)	-	-
<u>Refunding Bonds Series 2013A</u>					
Current Interest Bonds (2.0-3.0%) maturing 12/1/2022	2,204,999	-	(25,000)	2,179,999	284,999
<u>Refunding Bonds Series 2013B</u>					
Current Interest Bonds (2.0%) maturing 12/1/2018	254,999	-	(140,000)	114,999	114,999
<u>Refunding Bonds Series 2015</u>					
Current Interest Bonds (2.0-4.0%) maturing 12/1/2021	4,925,000	-	(35,000)	4,890,000	1,185,000
<u>Bonds Series 2017A</u>					
Current Interest Bonds (2.0-5.0%) maturing 11/1/2054	-	53,780,000	-	53,780,000	-
<u>Bonds Series 2017B</u>					
Current Interest Bonds (2.0-5.0%) maturing 11/1/2054	-	24,585,000	-	24,585,000	2,500,000
<u>Tax Anticipation Notes</u>					
Maturing 12/1/2019 (2.0-5.0%)	995,000	-	(320,000)	675,000	330,000
<u>Tax Anticipation Notes</u>					
Maturing 12/1/2021 (2.0-3.0%)	1,845,000	-	(355,000)	1,490,000	360,000
<u>Tax Anticipation Notes</u>					
Maturing 12/1/2025 (1.25-5.0%)	1,090,000	-	(115,000)	975,000	115,000
Bonds and Notes Payable	<u>12,765,660</u>	<u>78,414,338</u>	<u>(2,490,000)</u>	<u>88,689,998</u>	<u>4,889,998</u>
<u>Refunding Bonds Series 2003B</u>					
Appreciation Bonds Premium	4,129	-	(4,129)	-	-
<u>Refunding Bonds Series 2005</u>					
Current Interest Bonds Premium	116,673	-	(116,673)	-	-
Appreciation Bonds Premium	6,378	-	(6,378)	-	-
<u>Refunding Bonds Series 2015</u>					
Current Interest Bonds Premium	188,783	-	(41,952)	146,831	-
<u>Bonds Series 2017A</u>					
Current Interest Bonds Premium	-	2,646,098	(34,817)	2,611,281	-
<u>Bonds Series 2017B</u>					
Current Interest Bonds Premium	-	726,097	(9,554)	716,543	-
<u>2016 Tax Anticipation Notes</u>					
Premium	57,938	-	(6,816)	51,122	-
Total Long Term Obligations	<u>13,139,561</u>	<u>81,786,533</u>	<u>(2,710,319)</u>	<u>92,215,775</u>	<u>4,889,998</u>

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 – LONG TERM OBLIGATIONS (Continued)

Refunding Bonds, Series 2003B - On April 1, 1995, the District issued School Improvement Bonds for \$6,638,000, with a varying interest rate of 4.3 to 5.75 percent, for the purpose of constructing, renovating, furnishing, and equipping school buildings. The bond was issued for a twenty-eight year period with final maturity during fiscal year 2023. On December 9, 2003, the District advance refunded the 1995 bonds issuance and issued \$5,559,988 in bonds with varying interest rate of 1.2 to 4.4 percent. Of the December 9, 2003 proceeds, \$5,090,000 was serial bonds and \$469,988 was capital appreciation bonds. The bonds were sold at a premium of \$9,258 and \$602,380, respectively, with associated issuance costs of \$82,299. On December 9, 2003, \$6,075,810 was placed into an irrevocable trust to provide for all future debt service payments on the refunded 1995 school improvement bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$515,810. On December 1, 2005 the bonds were called and the refunded 1995 school improvement bonds were paid off and the escrow account was closed. As of June 30, 2018, accumulated accretion on the capital appreciation bonds is \$277,659. The debt is being repaid by tax receipts through the bond retirement Debt Service Fund. The current interest bonds were refunded with the 2013A series refunding bonds.

2005 Refunding Bonds - On March 8, 2005 the District issued refunding bonds in the amount of \$11,164,987 to advance refund a portion of the outstanding 1999 school facilities construction bonds and take advantage of lower interest rates. The \$11,164,987 in refunding bonds consisted of serial, term, and capital appreciation bonds in the amounts of \$3,955,000, \$4,995,000, and \$2,214,987, respectively. The debt is being repaid by tax receipts through the bond retirement Debt Service Fund. The refunding bonds were sold at a premium in the amount of \$967,645 and bond issuance costs were \$174,466. The capital appreciation bonds of \$2,214,987 will mature at \$4,055,000 ranging from the fiscal years of 2012 to 2018. As of June 30, 2018, accumulated accretion on the capital appreciation bonds is \$653,913. The current interest bonds were refunded by the 2015 series refunding bonds.

Refunding Bonds, Series 2013A - On October 10, 2013, the District current refunded the 2003A and 2003B bonds issuance and issued \$2,294,999 in bonds with varying interest rate of 2.0-3.0 percent. The bonds were sold at a premium of \$105,544 with associated issuance costs of \$56,492. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$256,703. The debt is being repaid by tax receipts through the bond retirement Debt Service Fund.

Refunding Bonds, Series 2013B - On October 10 2013, the District current refunded the 2003A and 2003B bonds issuance and issued \$659,999 in bonds with an interest rate of 2.0 percent. The bonds were sold at a premium of \$32,757 with associated issuance costs of \$19,912.

The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$30,738. The debt is being repaid by tax receipts through the bond retirement Debt Service Fund.

Refunding Bonds, Series 2015 - On September 9, 2015, the District current refunded the 2005 bond issuance and issued \$4,960,000 in bonds with an interest rate of 2.0-4.0 percent. The bonds were sold at a premium of \$251,711 with associated issuance costs of \$64,360. The current refunding resulted in a cash flow savings value of \$680,139 with a net present value of \$639,494. The debt is being repaid by tax receipts through the bond retirement Debt Service Fund.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 – LONG TERM OBLIGATIONS (Continued)

2017A School Facilities Construction and Improvement Bonds - On September 14, 2017, the District issued School Facilities Construction and Improvement Bonds for \$53,780,000, with a varying interest rate of 2.0-5.0 percent, for the purpose of constructing, renovating, furnishing, and equipping school buildings. The bonds have a final maturity during fiscal year 2055. The debt is being repaid by tax receipts through the bond retirement Debt Service Fund.

2017B School Facilities Construction and Improvement Bonds - On September 14, 2017, the District issued School Facilities Construction and Improvement Bonds for \$24,585,000, with a varying interest rate of 2.0-5.0 percent, for the purpose of constructing, renovating, furnishing, and equipping school buildings. The bonds have a final maturity during fiscal year 2055. The debt is being repaid by tax receipts through the bond retirement Debt Service Fund.

Tax Anticipation Notes - In fiscal year 2010, the District issued Tax Anticipation Notes in anticipation of the collection of the proceeds of a two and eight tenths (2.80) mill permanent improvement levy approved by the electors of the District at the election held May 5, 2009. The note matures December 1, 2019 with gradually increasing principal payments. Interest is paid semiannually on June 1 and December 1 of each year, which began on December 1, 2009. The debt is being repaid through the bond retirement Debt Service Fund, and reimbursed by tax receipts received in the Permanent Improvement Fund.

In fiscal year 2012, the District issued an additional \$3,535,000 in Tax Anticipation Notes in anticipation of the collection of the proceeds of a two and eight tenths (2.80) mill permanent improvement levy approved by the electors of the District at the election held May 5, 2009. The note matures December 1, 2021 with gradually increasing principal payments. Interest is paid semiannually on June 1 and December 1 of each year, which began on June 1, 2012. The debt is being repaid through the bond retirement Debt Service Fund, and reimbursed by tax receipts received in the Permanent Improvement Fund.

In fiscal year 2016, the District issued an additional \$1,210,000 in Tax Anticipation Note in anticipation of the collection of the proceeds of a two and eight tenths (2.80) mill permanent improvement levy approved by the electors of the District at the election held May 5, 2009. The note matures December 1, 2025 with gradually increasing principal payments. Interest is paid semiannually on June 1 and December 1 of each year, which began on June 1, 2016. The debt is being repaid through the bond retirement Debt Service Fund, and reimbursed by tax receipts received in the Permanent Improvement Fund.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 11 – LONG TERM OBLIGATIONS (Continued)

Debt service requirements to maturity on the bonds and notes are as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 4,889,998	\$ 3,244,973	\$ 8,134,971
2020	3,765,000	2,998,945	6,763,945
2021	3,075,000	2,924,590	5,999,590
2022	3,160,000	2,857,795	6,017,795
2023	1,370,000	2,768,907	4,138,907
2024-2028	7,555,000	13,271,776	20,826,776
2029-2033	8,710,000	11,756,105	20,466,105
2034-2038	10,560,000	9,895,830	20,455,830
2039-2043	12,750,000	7,691,100	20,441,100
2044-2048	15,255,000	5,140,291	20,395,291
2049-2053	11,955,000	2,562,935	14,517,935
2054-2055	5,645,000	246,729	5,891,729
Total	<u>\$ 88,689,998</u>	<u>\$ 65,359,976</u>	<u>\$ 154,049,974</u>

The Ohio Revised Code provides that the net debt of a school district, whether or not approved by the people, shall not exceed 9.0% of the total value of all property in the school district as listed and assessed for taxation. In addition, the unvoted net debt of a school district cannot exceed 0.1% of the total assessed value of property. The effects of these laws at fiscal year-end are a voted debt limit of \$59,263,032 and an unvoted debt limit of \$658,478. At fiscal year-end, the District was not subject to state consents/special needs approval due to its participation in a Commission program and qualifying for an exception to the approval requirements. The aggregate amount of the District's unvoted debt is also subject to overlapping debt restrictions with various governmental entities. At fiscal year-end, these entities have complied with the requirements that debt service payments on unvoted overlapping debt must not exceed in the aggregate 1% (10 mills) of the assessed property value.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 12 – DEFINED BENEFIT PENSION PLAN

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 net pension liability represents the 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 District’s obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the 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.

Plan Description - School Employees Retirement System (SERS)

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

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 12 – DEFINED BENEFIT PENSION PLAN (Continued)

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on 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.

On each anniversary of the initial retirement, the allowance of all retirees and survivors are increased by the annual rate of increase in the CPI-W measured as of the June preceding the beginning of the applicable calendar year. This cost-of-living adjustment (COLA) shall not be less than 0% nor greater than 2.5%. COLA's have been suspended for calendar years 2018, 2019, and 2020.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 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 District paid \$839,304 to SERS during fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

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

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 12 – DEFINED BENEFIT PENSION PLAN (Continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The District paid \$2,487,600 to STRS during fiscal year 2018.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
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FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 12 – DEFINED BENEFIT PENSION PLAN (Continued)

Net Pension Liability

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 District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability - 2017	\$ 9,368,460	\$ 35,933,090	\$ 45,301,550
Proportion of the Net Pension Liability - 2017	0.1568001%	0.15126401%	
Proportion of the Net Pension Liability - 2016	<u>0.1593345%</u>	<u>0.14917349%</u>	
Change in Proportionate Share	<u>-0.0025344%</u>	<u>0.00209052%</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.

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.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 12 – DEFINED BENEFIT PENSION PLAN (Continued)

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	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.50 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disable members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

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

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

<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>	

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

NOTE 12 – DEFINED BENEFIT PENSION PLAN (Continued)

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 13,000,987	\$ 9,368,460	\$ 6,325,477

Actuarial Assumptions - STRS

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

	July 1, 2017	July 1, 2016
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Cost-of-Living Adjustments (COLA)	0.00 percent effective July 1, 2017	2.00 percent simple applies as follows: for members retiring before August 1, 2013, 2.00 percent per year; for members retiring August 1, 2013 or later, 2.00 percent COLA commences on fifth anniversary of retirement date.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
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NOTE 12 – DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

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

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

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 12 – DEFINED BENEFIT PENSION PLAN (Continued)

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net pension liability	\$ 51,508,861	\$ 35,933,090	\$ 22,812,837

NOTE 13 – DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

For fiscal year 2018, Governmental Accounting Standards Board (GASB) Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions” was effective. This GASB pronouncement had no effect on beginning net position as reported June 30, 2017, as the net OPEB liability is not reported in the accompanying financial statements. The net OPEB liability has been disclosed below.

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 net OPEB liability represents the 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 District’s obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which OPEB are financed; however, the 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.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 – DEFINED BENEFIT OPEB PLANS (Continued)

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage.

Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the District's surcharge obligation was \$87,990.

The surcharge added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$0 for fiscal year 2018.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 – DEFINED BENEFIT OPEB PLANS (Continued)

Plan Description - State Teachers Retirement System (STRS)

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

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

Net OPEB Liability

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net OPEB Liability - 2017	\$ 4,276,833	\$ 5,901,764	\$ 10,178,597
Proportion of the Net OPEB Liability - 2017	0.1593611%	0.15126401%	
Proportion of the Net OPEB Liability - 2016	<u>0.1609164%</u>	<u>0.14917349%</u>	
Change in Proportionate Share	<u>-0.0015553%</u>	<u>0.00209052%</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.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 – DEFINED BENEFIT OPEB PLANS (Continued)

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

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

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

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

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

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

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015 and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 – DEFINED BENEFIT OPEB PLANS (Continued)

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:

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

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 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.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 – DEFINED BENEFIT OPEB PLANS (Continued)

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
District's proportionate share of the net OPEB liability	\$5,164,821	\$4,276,833	\$3,573,320

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
District's proportionate share of the net OPEB liability	\$3,470,330	\$4,276,833	\$5,344,254

Actuarial Assumptions - STRS

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

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

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

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

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

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NOTE 13 – DEFINED BENEFIT OPEB PLANS (Continued)

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:

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

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

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
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FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 13 – DEFINED BENEFIT OPEB PLANS (Continued)

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 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 (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
District's proportionate share of the net OPEB liability	\$7,923,023	\$5,901,764	\$4,304,308

	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$4,100,292	\$5,901,764	\$8,272,710

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 14 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal year, the District purchased insurance coverage from Liberty Mutual. Coverage provided by Liberty Mutual is as follows:

Property Coverage

Building and Business Personal Property - Replacement Cost	\$79,596,900
Equipment Breakdown	Included

General Liability Coverage

Bodily Injury and Property Damage Limit (each offense)	\$1,000,000
Personal and Advertising Injury Limit (each offense)	\$1,000,000
General Aggregate Limit	\$2,000,000
Products-Completed Operations Aggregate Limit	\$2,000,000

Auto Coverage (per accident or “loss”)

Liability	\$1,000,000
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Umbrella/Liability Coverage

Each Occurrence Limit	\$5,000,000
Aggregate Limit	\$5,000,000

Employer’s Liability – Stop Gap Coverage

Bodily Injury By Accident – Each Accident	\$1,000,000
Bodily Injury By Disease – Each Employee	\$1,000,000
Aggregate Limit	\$2,000,000

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

NOTE 15 – JOINTLY GOVERNED ORGANIZATIONS

A. Licking Area Computer Association

The District is a participant in the Licking Area Computer Association (LACA). LACA is an association which services 30 entities within the boundaries of Licking, Perry, Fairfield, Knox, Medina, and Muskingum Counties. These entities consist of public school districts, private schools, and educational service centers. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of LACA consists of the superintendents from all participating districts. The continued existence of LACA is not dependent on the District’s continued participation and no equity interest exists. The LACA constitution states that any school district withdrawing from the Association prior to dissolution forfeits their claim to the Association’s capital assets. The District’s total payments to LACA for fiscal year 2018 were \$166,400.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 15 – JOINTLY GOVERNED ORGANIZATIONS (Continued)

Financial statements for LACA can be obtained from their fiscal agent, the Career and Technology Education Center of Licking County, 150 Price Road, Newark, OH 43055.

B. META Solutions

The District participates in the Metropolitan Educational Technology Association (META), a jointly governed organization created as a regional council of governments pursuant to Chapter 167 of the Ohio Revised Code. META operates as, and has all the powers of, a data acquisition site/information technology center pursuant to applicable provisions of the Ohio Revised Code. The organization was formed for the purpose of identifying, developing, and providing to members and non-members innovative educational and technological services and products, as well as expanded opportunities for cooperative purchasing. The General Assembly of META consists of one delegate from every member school district. The delegate is the superintendent of school district or the superintendent's designee. The degree of control exercised by any participating school district is limited to its representation on the General Assembly. The General Assembly exercises total control over the operation of META including budgeting, appropriating, contracting, and designating management. Each year, the participating school district's pay a membership fee to META to cover the costs of administering the program. In fiscal year 2018, the District made no payments to META. Financial information can be obtained by META's CFO, 100 Executive Drive, Marion, Ohio 43302.

C. School Study Council of Ohio

The School Study Council of Ohio (Council) is a jointly governed organization operated by a Board of Trustees (Board) that is comprised of numerous Ohio school districts. The purpose of the Council is to bring about the improvement of education in member school organizations. Participating school districts have active membership by paying a yearly membership fee which entitles each school district to attend Council meetings and voting privileges. Participating school districts may elect to be associate members, which entitles them to attend meetings and participate in Council discussions but not to vote. The Board is annually elected from within the Council's active membership. In fiscal year 2016, the Board consisted of twenty-one members. In fiscal year 2018, the District made no payments to the Council.

NOTE 16 – RELATED ORGANIZATION

Pataskala Public Library - The Pataskala Public Library is statutorily created as a separate and distinct political subdivision. Seven trustees of the District Library are appointed by the District. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the District for operational subsidies. Due process is required to remove Board members. No subsidies are provided by the District.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 17 – SET ASIDES

The District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by 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 years. The following modified cash basis information describes the change in the fiscal year-end set-aside amounts for the Capital Acquisition Reserves:

Set-aside cash balance as of June 30, 2017	\$	-
Current fiscal year set-aside requirement		719,599
Current Year Offsets		(1,749,310)
Total	<u>\$</u>	<u>(1,029,711)</u>
Balance Carried Forward to Fiscal Year 2019	<u>\$</u>	<u>-</u>

During fiscal year 2018, the District issued \$78,365,000 in capital related debt based on a building project under taken by the District. Those proceeds may be used as qualifying offsets to reduce the capital acquisition to zero for future years. At June 30, 2018, the District still has \$78,365,000 in qualifying proceeds that may be used to reduce the set-aside requirement for future years.

NOTE 18 – CONTINGENCIES

- (a) **Grants** - The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.
- (b) **Litigation** - The District is not party to any litigation that, in the opinion of management, would have a material effect on the financial statements.
- (c) **School District Foundation** - Funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the fiscal year 2018 Foundation funding for the school district; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District. As a result of the fiscal year 2018 reviews, the District is due \$58,451 from ODE. This amount has not been included in the financial statements.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 19 – CONTRACTUAL COMMITMENTS

At fiscal year-end, the District has commitments with the following companies:

Vendor	Contract Amount	Amount Paid As of June 30, 2018	Amount Remaining on Contract
Robertson Construction Services, Inc.	\$ 483,617	\$ -	\$ 483,617
Garmann/Miller & Associates, Inc.	9,879,067	1,513,699	8,365,368
Hill International, Inc.	1,200,195	48,942	1,151,253
Four Seasons Environmental, Inc.	438,297	-	438,297
Warner Concepts LLC	72,702	72,702	-
Total	<u>\$ 12,073,878</u>	<u>\$ 1,635,343</u>	<u>\$ 10,438,535</u>

Contractual Commitments are primarily a result of the District’s ongoing Ohio School Facilities Project.

The District encumbers funds with purchase orders to assign funds for those purchases of goods and services. Encumbrances as of fiscal year end in the General Fund, Permanent Improvement Fund, Building Fund, Classroom Facilities Fund, and Other Governmental Funds were \$217,987, \$391,850, \$1,103,077, \$8,943,050, and \$25,216, respectively.

NOTE 20 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2018, the District has implemented the following:

GASB Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions” improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB) and improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities by establishing new accounting and financial reporting requirements for OPEB plans. The implementation of this statement did not have an effect on the financial statements of the District.

GASB Statement No. 81 “Irrevocable Split-Interest Agreements” improves financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of this statement did not have an effect on the financial statements of the District.

GASB Statement No. 85 “Omnibus 2017” addresses practice issues that have been identified during implementation and application of certain GASB Statements. Specific issues discussed relate to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits [OPEB]). The implementation of this statement did not have a significant effect on the financial statements of the District.

SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 20 – CHANGES IN ACCOUNTING PRINCIPLES (Continued)

GASB Statement No. 86 “Certain Debt Extinguishment Issues” improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of this statement did not have an effect on the financial statements of the District.

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**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program / Cluster Title	Federal CFDA Number	Pass-Through Entity Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
Child Nutrition Cluster			
School Breakfast Program	10.553	N/A	\$ 149,978
National School Lunch Program (Non-Cash Assistnace)	10.555	N/A	114,586
National School Lunch Program	10.555	N/A	440,076
Total Child Nutrition Cluster			<u>704,640</u>
Total U.S. Department of Agriculture			<u>704,640</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
Title I Grants to Local Educational Agencies	84.010	N/A	458,688
Special Education Cluster (IDEA)			
Special Education Grants to States	84.027	N/A	719,290
Special Education Preschool Grants	84.173	N/A	13,337
Total Special Education Cluster (IDEA)			<u>732,627</u>
Improving Teacher Quality State Grants	84.367	N/A	114,207
Student Support and Academic Enrichment Program	84.424A	N/A	12,471
Total U.S. Department of Education			<u>1,317,993</u>
INSTITUTE OF MUSEUM AND LIBRARY SERVICES			
<i>Passed Through State Library of Ohio</i>			
Grants to States	45.310	N/A	<u>2,715</u>
Total Institute of Museum and Library Services			<u>2,715</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,025,348</u></u>

The accompanying notes are an integral part of this schedule.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING 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 Southwest Licking Local School District’s (the District’s) under programs of the federal program 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 or changes in net position 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 Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - 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 D – FOOD DONATION PROGRAM

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

The Co-op used by the District is administered by HPS and is part of the EPC/MEC buying group.

NOTE E - 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 2017 to 2018 programs:

Program Title	CFDA Number	Amount Transferred
Title I Grants to Local Educational Agencies	84.010	\$ 37,689
Special Education Grants to States	84.027	\$ 25,655
Improving Teacher Quality State Grants	84.367	\$ 13



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

Southwest Licking Local School District
Licking County
927-A South Street
Pataskala, Ohio 43062

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 modified cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southwest Licking Local School District, Licking 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 and have issued our report thereon dated March 11, 2019, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2018-001 and 2018-002.

District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not subject the District's responses to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 communication is not suitable for any other purpose.



Keith Faber
Auditor of State

Columbus, Ohio

March 11, 2019

OHIO AUDITOR OF STATE KEITH FABER



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

Southwest Licking Local School District
Licking County
927-A South Street
Pataskala, Ohio 43062

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the Southwest Licking Local School District's, Licking County, Ohio (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 each of the Southwest Licking Local School District's major federal programs for the year ended June 30, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

The 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 each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the 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 or corrected. A *significant deficiency in internal over compliance* is a deficiency or a combination of deficiencies in internal control over compliance with a 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 was not designed to 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 tests of internal control over compliance and the results of this testing based on the Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State

Columbus, Ohio

March 11, 2019

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

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

FINDING NUMBER 2018-001

Annual Financial Report – Noncompliance

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

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

The District prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumed material, cannot be determined at this time. We further noted, the District did not file their financial statements until October 4, 2018 after the 60 day deadline of August 29, 2018.

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

We recommend the District prepare its financial statements in accordance with GAAP. We further recommend the District file the annual report within sixty days after the fiscal year end.

Officials' Response: See Corrective Action Plan.

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY**

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

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2018-002

Finding for Recovery – Repaid Under Audit – Unallowable Payroll Expenditures

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper Public Purpose states that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

During the period of September 14, 2015 through May 11, 2018, Jeffrey Chapman, a District employee, was approved by the Board to serve as a Teacher, Faculty Manager, Substitute Custodian and Detention Monitor. All of these are paid positions. The duties for the latter three positions were to be performed after school hours. Due to the timing of the required hours for these positions, there was an overlap of the times the employee was required to perform the position duties. The employee clocked-in as a Substitute Janitor and then performed the duties of the other overlapping positions. This resulted in payment for work as a Substitute Custodian that was not performed in the amount of \$1,177.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public property converted or misappropriated is hereby issued against Jeffrey Chapman in the amount of \$1,177 and in favor of Southwest Licking Local School District's General fund.

Jeffrey Chapman repaid the District via personal checks and payroll deductions. The deposits were posted to the District’s General Fund.

Officials’ Response: See Corrective Action Plan.

3. FINDINGS FOR FEDERAL AWARDS

None.



SOUTHWEST LICKING LOCAL SCHOOLS

927-A South Street
Pataskala, OH 43062

Richard D. Jones, Treasurer
rdjones@laca.org

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Web: www.swl.k12.oh.us

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS 2 CFR 200.511(b) JUNE 30, 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001 2016-001	<p>Noncompliance for ORC 117.38 for not filing on GAAP basis</p> <p>Finding first occurred in fiscal year 2004 at finding 2004-SWLSD-001.</p>	Not corrected	The District elects to report on a modified-cash basis rather than GAAP. The finding was re-issued as 2018-001.



SOUTHWEST LICKING LOCAL SCHOOLS

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Web: www.swl.k12.oh.us

CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
JUNE 30, 2018

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	None. The Southwest Licking LSD has no plans to convert to GAAP financial statements due to cost of the GAAP conversion and audit. The School District does prepare GAAP Look Alike financial statements.	N/A	Richard D. Jones, Treasurer
2018-002	The Treasurer's office will review payroll records for any regular employee working in a substitute position to ensure there are no overlap in hours.	N/A	Richard D. Jones, Treasurer

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OHIO AUDITOR OF STATE
KEITH FABER



SOUTHWEST LICKING LOCAL SCHOOL DISTRICT

LICKING 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**