

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2017***

OHIO AUDITOR OF STATE KEITH FABER



Board of Education
New Knoxville Local School District
345 South Main Street
New Knoxville, Ohio 45871

We have reviewed the *Independent Auditor's Report* of the New Knoxville Local School District, Auglaize County, prepared by Julian & Grube, Inc., for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The New Knoxville Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

April 1, 2019

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**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY, OHIO**

TABLE OF CONTENTS

Independent Auditor’s Report	1 - 2
Management’s Discussion and Analysis	3 - 11
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position - Cash Basis	12
Statement of Activities - Cash Basis	13
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balances -	
Governmental Funds	14
Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balances -	
Governmental Funds	15
Statement of Receipts, Disbursements and Changes in Fund Balance -	
Budget and Actual (Non-GAAP Budgetary Basis) - General Fund	16
Statement of Cash Basis Fiduciary Net Position - Fiduciary Funds	17
Statement of Cash Basis Change in Fiduciary Net Position -	
Private Purpose Trust Fund.....	18
Notes to the Basic Financial Statements.....	19 - 48
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i>	49 - 50
Schedule of Findings and Responses.....	51 - 52
Status of Prior Audit Findings	53

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

New Knoxville Local School District
Auglaize County
P.O. Box 476
345 South Main Street
New Knoxville, Ohio 45871

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the New Knoxville Local School District, Auglaize County, Ohio, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the New Knoxville Local School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the New Knoxville Local School District, Auglaize County, Ohio, as of June 30, 2017, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the fiscal year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Matters

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 February 26, 2019, on our consideration of the New Knoxville Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the New Knoxville Local School District's internal control over financial reporting and compliance.

Julian & Grube, Inc.

Julian & Grube, Inc.
February 26, 2019

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

The management's discussion and analysis of the New Knoxville Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the year ended June 30, 2017, within the limitations of the School District's cash basis of accounting. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the cash-basis financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- The total net cash position of the School District increased \$482,832 or 11.23% from fiscal year 2016.
- General cash receipts accounted for \$6,510,477 or 88.00% of total governmental activities cash receipts. Program specific cash receipts accounted for \$887,778 or 12.00% of total governmental activities cash receipts.
- The School District had \$6,915,423 in cash disbursements related to governmental activities; \$887,778 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts (primarily taxes and grants and entitlements) of \$6,510,477 were adequate to provide for these programs.
- The School District's major funds are the general fund and the bond retirement fund. The general fund had cash receipts of \$5,062,716 in fiscal year 2017. The cash disbursements and other financing uses of the general fund totaled \$4,705,191 in 2017. The general fund's cash balance increased \$357,525 or 11.90% from fiscal year 2016 to fiscal year 2017.
- The bond retirement fund had cash receipts and other financing sources of \$1,852,831 and cash disbursements and other financing uses of \$1,733,992 in 2017. The bond retirement fund's cash balance increased \$118,839 or 19.80% from 2016 to 2017.

Using the Basic Financial Statements (BFS)

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the School District's cash basis of accounting.

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Reporting the School District as a Whole

Statement of Net Position - Cash Basis and the Statement of Activities - Cash Basis

The statement of net position - cash basis and statement of activities - cash basis answer the question, "How did we do financially during 2017?" These statements include *only net position* using the *cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid. These two statements report the School District's net cash position and changes in those assets on a cash basis. This change in net cash position is important because it tells the reader that, for the School District as a whole, the cash basis financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, mandated federal and state programs and other factors.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net position - cash basis and statement of activities - cash basis the governmental activities include the School District's programs and services including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The statement of net position - cash basis and statement of activities - cash basis can be found on pages 12-13 of this report.

Reporting the School District's Most Significant Funds

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 School 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 School District can be divided into two categories: governmental funds and fiduciary funds.

Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the bond retirement fund. The analysis of the School District's major governmental funds begins on page 9.

Governmental Funds

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principals generally accepted in the United States of America. The governmental fund statements provide a detailed view of the School District's general government operations and the basic services it provides.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be readily spent to finance various School District programs. Since the School District is reporting on the cash basis of accounting, there are no differences in the net cash position and fund cash balances or changes in net cash position and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements. The governmental fund statements can be found on pages 14-15 of this report.

The School District’s budgetary process accounts for certain transactions on a cash basis. The budgetary statement for the general fund is presented to demonstrate the School District’s compliance with annually adopted budgets. The budgetary statement can be found on page 16 of this report.

Fiduciary Funds

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

The School District’s only fiduciary funds are a private-purpose trust fund and an agency fund. All of the School District’s fiduciary activities are reported in separate statements of fiduciary net position cash basis and changes in fiduciary net position cash basis on pages 17-18. These activities are excluded from the School District’s other financial statements because the assets cannot be utilized by the School District to finance its operations.

Notes to the Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-48 of this report.

Government-Wide Financial Analysis

Recall that the statement of net position - cash basis provides the perspective of the School District as a whole.

The table below provides a summary of the School District’s net cash position at June 30, 2017 and June 30, 2016.

	Net Cash Position	
	Governmental Activities	Governmental Activities
	2017	2016
Assets		
Equity in pooled cash and cash equivalents	\$ 4,781,837	\$ 4,299,005
Total assets	<u>4,781,837</u>	<u>4,299,005</u>
Net Cash Position		
Restricted	1,186,033	1,271,582
Unrestricted	<u>3,595,804</u>	<u>3,027,423</u>
Total net cash position	\$ 4,781,837	\$ 4,299,005

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

The total net cash position of the School District increased \$482,832 which represents a 11.23% increase from fiscal year 2016. The balance of government-wide unrestricted net cash position of \$3,595,804 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net cash position for fiscal year 2017 and 2016.

	Change in Net Cash Position	
	Governmental Activities 2017	Governmental Activities 2016
Cash Receipts:		
Program cash receipts:		
Charges for services and sales	\$ 593,638	\$ 551,781
Operating grants and contributions	294,140	312,527
Total program cash receipts	887,778	864,308
General cash receipts:		
Property and other taxes	1,597,836	1,592,287
Income taxes	780,426	786,862
Unrestricted grants:		
Operating	2,598,894	2,385,874
Investment earnings	22,862	16,336
Sale of refunding bonds	1,355,000	-
Premium on sale of refunding bonds	83,067	-
Other	72,392	11,772
Total general cash receipts	6,510,477	4,793,131
Total cash receipts	7,398,255	5,657,439

- Continued

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Change in Net Cash Position	
	Governmental Activities 2017	Governmental Activities 2016
	<hr/>	<hr/>
Cash Disbursements:		
Instruction:		
Regular	\$ 2,565,469	\$ 2,439,514
Special	323,580	399,691
Support services:		
Pupil	154,122	175,854
Instructional staff	261,001	264,077
Board of education	18,492	13,583
Administration	366,750	321,097
Fiscal	212,691	161,449
Operations and maintenance	510,364	471,159
Pupil transportation	193,780	200,066
Central	3,477	3,148
Operation of non instructional services	150,913	152,679
Extracurricular	299,996	346,071
Facilities acquisition and construction	5,451	-
Debt service:		
Principal retirement	178,469	206,597
Interest and fiscal charges	233,180	217,349
Bond issuance costs	33,175	-
Payment to refunded bond escrow agent	1,404,513	-
	<hr/>	<hr/>
Total cash disbursements	6,915,423	5,372,334
	<hr/>	<hr/>
Change in net cash position	482,832	285,105
Net cash position at beginning of year	4,299,005	4,013,900
	<hr/>	<hr/>
Net cash position at end of year	\$ 4,781,837	\$ 4,299,005

Governmental Activities

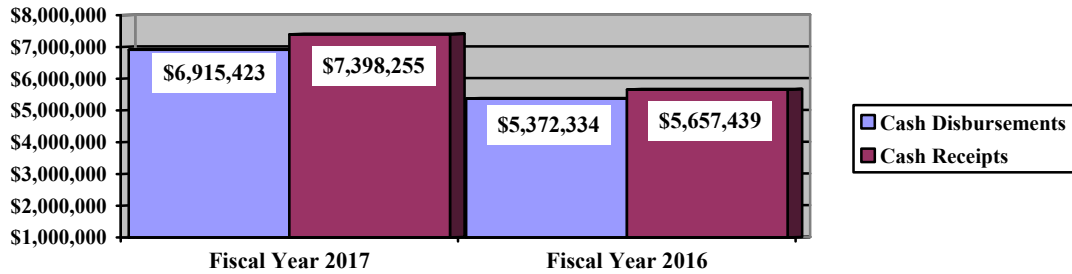
Governmental net cash position increased by \$482,832 in fiscal year 2017 from fiscal year 2016. Total governmental disbursements of \$6,915,423 were offset by program receipts of \$887,778 and general receipts of \$6,510,477. Program receipts supported 12.84% of the total governmental disbursements. The largest governmental disbursement was instructional expenditures which totaled \$2,889,049.

The primary sources of receipts for governmental activities are derived from taxes, and unrestricted grants and entitlements. These receipt sources represent 67.27% of total governmental receipts. Real estate property is reappraised every six years.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Governmental Activities - Total Cash Receipts vs. Total Cash Disbursements



Governmental Activities

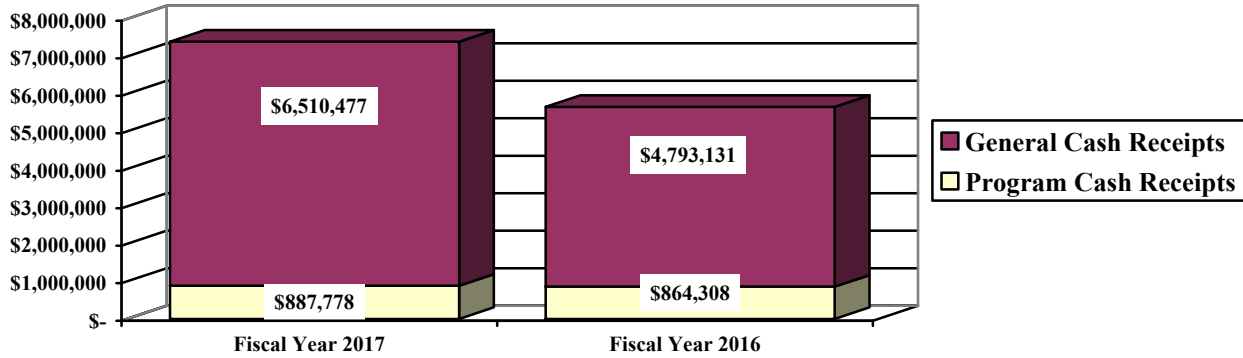
	Total Cost of Services 2017	Net Cost of Services 2017	Total Cost of Services 2016	Net Cost of Services 2016
Cash disbursements:				
Instruction:				
Regular	\$ 2,565,469	\$ 2,189,735	\$ 2,439,514	\$ 2,090,474
Special	323,580	123,796	399,691	207,463
Support services:				
Pupil	154,122	154,122	175,854	175,854
Instructional staff	261,001	240,196	264,077	257,144
Board of education	18,492	18,492	13,583	13,583
Administration	366,750	366,750	321,097	321,097
Fiscal	212,691	212,691	161,449	161,449
Operations and maintenance	510,364	509,152	471,159	459,520
Pupil transportation	193,780	171,155	200,066	184,029
Central	3,477	3,477	3,148	3,148
Operation of non instructional services	150,913	14,244	152,679	503
Extracurricular	299,996	169,047	346,071	209,816
Facilities acquisition and construction	5,451	5,451	-	-
Debt service:				
Principal retirement	178,469	178,469	206,597	206,597
Interest and fiscal charges	233,180	233,180	217,349	217,349
Bond issuance costs	33,175	33,175	-	-
Payment to refunded bond escrow agent	1,404,513	1,404,513	-	-
Total	\$ 6,915,423	\$ 6,027,645	\$ 5,372,334	\$ 4,508,026

The dependence upon general cash receipts for governmental activities is apparent; with only 12.84% of cash disbursements supported through program cash receipts during fiscal year 2017.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Governmental Activities - General and Program Cash Receipts



Financial Analysis of the Government's Funds

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

Governmental Funds

The School District's governmental funds are accounted for using the cash basis of accounting.

The School District's governmental funds reported a combined fund cash balance of \$4,781,837, which is \$482,832 higher than last year's total of \$4,299,005. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2017 and June 30, 2016, for all major and nonmajor governmental funds.

	Fund Cash Balance <u>June 30, 2017</u>	Fund Cash Balance <u>June 30, 2016</u>	Increase <u>(Decrease)</u>
General	\$ 3,361,434	\$ 3,003,909	\$ 357,525
Bond retirement	719,012	600,173	118,839
Other nonmajor governmental funds	<u>701,391</u>	<u>694,923</u>	<u>6,468</u>
Total	<u>\$ 4,781,837</u>	<u>\$ 4,299,005</u>	<u>\$ 482,832</u>

General Fund

The School District's major fund is the general fund. The general fund had cash receipts of \$5,062,716 in 2017. The cash disbursements and other financing uses of the general fund totaled \$4,705,191 in fiscal year 2017. The general fund's cash balance increased \$357,525 or 11.90% from fiscal year 2016 to fiscal year 2017.

Bond Retirement Fund

The bond retirement fund had cash receipts and other financing sources of \$1,852,831 and cash disbursements and other financing uses of \$1,733,992 in fiscal year 2017. The bond retirement fund's cash balance increased \$118,839 or 19.80% from fiscal year 2016 to fiscal year 2017.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

	2017 <u>Amount</u>	2016 <u>Amount</u>	Percentage <u>Change</u>
Cash Receipts:			
Taxes	\$ 1,975,969	\$ 1,977,719	(0.09) %
Tuition	330,017	284,793	15.88 %
Earnings on investments	22,862	16,336	39.95 %
Extracurricular	14,280	28,672	(50.20) %
Other local revenues	50,852	34,091	49.17 %
Intergovernmental	<u>2,668,736</u>	<u>2,454,945</u>	8.71 %
Total	\$ 5,062,716	\$ 4,796,556	5.55 %

Overall, general fund cash receipts increased \$266,160 or 5.55%. Tuition receipts increased \$45,224 or 15.88% primarily due to an increase in open enrollment in the current fiscal year. Earnings on investments increased \$6,526 or 39.95% due to an increase in monies held in investments in the current fiscal year. Extracurricular receipts decreased \$14,392 or 50.20% due to a decrease in extracurricular fees. The increase in intergovernmental receipts of \$213,791 or 8.71% was mainly due to an increase in state foundation and Medicaid reimbursements.

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

	2017 <u>Amount</u>	2016 <u>Amount</u>	Percentage <u>Change</u>
Cash Disbursements			
Instruction	\$ 2,788,067	\$ 2,711,421	2.83 %
Support services	1,606,702	1,489,533	7.87 %
Extracurricular	174,419	185,881	(6.17) %
Debt service	<u>10,471</u>	<u>-</u>	100.00 %
Total	<u>\$ 4,579,659</u>	<u>\$ 4,386,835</u>	4.40 %

The increase in cash disbursements of \$192,824 or 4.40% was due to the increase in support services. The School District's support service disbursements increased due to an increase in disbursements related to instructional staff, fiscal and administration. Debt service disbursement increased \$10,471 or 100.00% due to the District making payments for a copier lease out of the general fund. The first lease payment was made in fiscal year 2017.

Budgeting Highlights - General Fund

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

For the general fund, original and final budgetary basis receipts and other financing sources were \$4,969,400. Actual cash receipts and other financing sources of \$5,025,546 were higher than original and final budget estimates and other financing sources by \$56,146.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

The final and original budgetary basis disbursements and other financing uses were \$4,966,752. The actual budgetary basis disbursements of \$4,681,458 were \$285,294 less than the original and final budget estimates.

Capital Assets and Debt Administration

Capital Assets

The School District does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as disbursements.

Debt Administration

At June 30, 2017, the School District had \$2,428,656 in general obligation bonds, \$210,023 in loans payable and \$37,889 in capital lease obligations payable outstanding. Of this total \$250,383 is due within one year and \$2,426,185 is due in more than one year. The following table summarizes the obligations outstanding.

	Governmental Activities <u>2017</u>	Governmental Activities <u>2016</u>
General Obligation bonds	\$ 2,428,656	\$ 2,499,997
Loans payable	210,023	308,929
Capital lease obligation	<u>37,889</u>	<u>46,111</u>
Total long-term obligations	<u>\$ 2,676,568</u>	<u>\$ 2,855,037</u>

Refer to Note 14 to the basic financial statements for further detail.

Current Financial Related Activities

General Fund receipts are expected to increase in fiscal year 2018, while most revenue sources will remain relatively flat. However, the District expects to see an increase in school foundation receipts in fiscal year 2018.

General Fund appropriations are expected to increase approximately 3 percent in fiscal year 2018. Base salaries will increase by 2.75 percent in addition to staff step increases. The District has experienced some staff turnover and hired new personnel at lower salaries and fringe benefits. In addition, we have hired 1 additional staff member. The District had a 7 percent increase in health insurance costs in January 2017. Appropriations for purchased services and supplies and materials will increase slightly. The bus purchase took place in fiscal year 2018.

Contacting the School District's Financial Management

This financial report is designed to provide a general overview of the School District's finances for all those interested in our School District's financial well-being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Amy Reineke, Treasurer, 345 South Main Street, P.O. Box 476, New Knoxville, Ohio 45871.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2017

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 4,781,837
Total assets.	4,781,837
 Net position:	
Restricted for:	
Debt service.	719,012
Capital projects	247,743
Other purposes	219,278
Unrestricted.	3,595,804
Total net position.	\$ 4,781,837

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Program Cash Receipts</u>			<u>Net (Disbursement) Receipt and Change in Net Position</u>
	<u>Disbursements</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions, and Interest</u>	<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 2,565,469	\$ 346,420	\$ 29,314	\$ (2,189,735)
Special	323,580	5,837	193,947	(123,796)
Support services:				
Pupil	154,122	-	-	(154,122)
Instructional staff	261,001	-	20,805	(240,196)
Board of education.	18,492	-	-	(18,492)
Administration.	366,750	-	-	(366,750)
Fiscal.	212,691	-	-	(212,691)
Operations and maintenance.	510,364	1,117	95	(509,152)
Pupil transportation	193,780	-	22,625	(171,155)
Central	3,477	-	-	(3,477)
Operation of non-instructional services:				
Food service operations.	150,913	116,365	20,304	(14,244)
Extracurricular activities	299,996	123,899	7,050	(169,047)
Facilities acquisition and construction.	5,451	-	-	(5,451)
Debt service:				
Principal retirement	178,469	-	-	(178,469)
Interest and fiscal charges.	233,180	-	-	(233,180)
Bond issuance costs.	33,175	-	-	(33,175)
Payment to refunded bond escrow agent.	1,404,513	-	-	(1,404,513)
Total governmental activities.	\$ 6,915,423	\$ 593,638	\$ 294,140	(6,027,645)

General receipts:

Property taxes levied for:

General purposes	1,195,543
Debt service.	367,171
Permanent improvements	13,344
Facility maintenance	21,778
Income taxes.	780,426
Grants and entitlements not restricted to specific programs	2,598,894
Investment earnings	22,862
Sale of refunding bonds	1,355,000
Premium on sale of refunding bonds	83,067
Miscellaneous	72,392

Total general receipts	6,510,477
Change in net position	482,832
Net position at beginning of year	4,299,005
Net position at end of year.	\$ 4,781,837

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 3,361,434	\$ 719,012	\$ 701,391	\$ 4,781,837
Total assets	<u>3,361,434</u>	<u>719,012</u>	<u>701,391</u>	<u>4,781,837</u>
Fund balances:				
Restricted:				
Athletics and music	-	-	93,417	93,417
Capital improvements	-	-	247,743	247,743
Debt retirement	-	719,012	-	719,012
Classroom facilities maintenance	-	-	21,301	21,301
Food service operations	-	-	100,960	100,960
Technology	-	-	3,600	3,600
Committed:				
Instruction	-	-	23,514	23,514
Assigned:				
Capital improvements	-	-	214,706	214,706
Educational activities	24,188	-	-	24,188
Unpaid obligations	2,450	-	-	2,450
Unassigned (deficit)	3,334,796	-	(3,850)	3,330,946
Total fund balances	<u>\$ 3,361,434</u>	<u>\$ 719,012</u>	<u>\$ 701,391</u>	<u>\$ 4,781,837</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:				
From local sources:				
Property taxes	\$ 1,195,543	\$ 367,171	\$ 35,122	\$ 1,597,836
Income taxes	780,426	-	-	780,426
Earnings on investments	22,862	-	373	23,235
Tuition	330,017	-	-	330,017
Charges for services	-	-	116,912	116,912
Extracurricular	14,280	-	109,619	123,899
Classroom materials and fees	22,240	-	-	22,240
Rental income	570	-	-	570
Contributions and donations	12,381	-	7,050	19,431
Other local revenues	15,661	-	44,350	60,011
Intergovernmental - state	2,602,905	47,593	18,963	2,669,461
Intergovernmental - federal	65,831	-	150,319	216,150
Total receipts	<u>5,062,716</u>	<u>414,764</u>	<u>482,708</u>	<u>5,960,188</u>
Disbursements:				
Current:				
Instruction:				
Regular	2,533,872	-	31,597	2,565,469
Special	254,195	-	69,385	323,580
Support services:				
Pupil	154,122	-	-	154,122
Instructional staff	238,584	-	22,417	261,001
Board of education	18,492	-	-	18,492
Administration	366,750	-	-	366,750
Fiscal	205,394	6,659	638	212,691
Operations and maintenance	440,761	-	69,603	510,364
Pupil transportation	179,122	-	14,658	193,780
Central	3,477	-	-	3,477
Operation of non-instructional services:				
Food service operations	-	-	150,913	150,913
Extracurricular activities	174,419	-	125,577	299,996
Facilities acquisition and construction	-	-	5,451	5,451
Debt service:				
Principal retirement	8,222	71,341	98,906	178,469
Interest and fiscal charges	2,249	218,304	12,627	233,180
Bond issuance costs	-	33,175	-	33,175
Total disbursements	<u>4,579,659</u>	<u>329,479</u>	<u>601,772</u>	<u>5,510,910</u>
Excess (deficiency) of receipts over (under) disbursements	<u>483,057</u>	<u>85,285</u>	<u>(119,064)</u>	<u>449,278</u>
Other financing sources (uses):				
Premium on bonds	-	83,067	-	83,067
Sale of bonds	-	1,355,000	-	1,355,000
Transfers in	-	-	125,532	125,532
Transfers (out)	(125,532)	-	-	(125,532)
Payment to refunded bond escrow	-	(1,404,513)	-	(1,404,513)
Total other financing sources (uses)	<u>(125,532)</u>	<u>33,554</u>	<u>125,532</u>	<u>33,554</u>
Net change in fund balances	357,525	118,839	6,468	482,832
Fund balances at beginning of year	<u>3,003,909</u>	<u>600,173</u>	<u>694,923</u>	<u>4,299,005</u>
Fund balances at end of year	<u>\$ 3,361,434</u>	<u>\$ 719,012</u>	<u>\$ 701,391</u>	<u>\$ 4,781,837</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE 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, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Receipts:				
From local sources:				
Property taxes	\$ 1,194,500	\$ 1,194,500	\$ 1,195,543	\$ 1,043
Income taxes	786,000	786,000	780,426	(5,574)
Earnings on investments	15,500	15,500	22,862	7,362
Tuition	285,000	285,000	330,017	45,017
Rental income	700	700	570	(130)
Contributions and donations	600	600	10,100	9,500
Other local revenues	1,000	1,000	2,284	1,284
Intergovernmental - state	2,637,100	2,637,100	2,602,905	(34,195)
Intergovernmental - federal	48,000	48,000	65,831	17,831
Total receipts	<u>4,968,400</u>	<u>4,968,400</u>	<u>5,010,538</u>	<u>42,138</u>
Disbursements:				
Current:				
Instruction:				
Regular	2,621,776	2,621,776	2,532,135	89,641
Special	375,330	375,330	254,195	121,135
Support services:				
Pupil	202,450	202,450	154,122	48,328
Instructional staff	237,715	237,715	238,742	(1,027)
Board of education	21,420	21,420	18,492	2,928
Administration	359,876	359,876	367,669	(7,793)
Fiscal	213,960	213,960	205,394	8,566
Operations and maintenance	455,460	455,460	440,761	14,699
Pupil transportation	175,400	175,400	179,122	(3,722)
Central	3,925	3,925	3,796	129
Extracurricular activities	159,440	159,440	161,498	(2,058)
Total disbursements	<u>4,826,752</u>	<u>4,826,752</u>	<u>4,555,926</u>	<u>270,826</u>
Excess of receipts over disbursements	<u>141,648</u>	<u>141,648</u>	<u>454,612</u>	<u>312,964</u>
Other financing sources (uses):				
Refund of prior year's expenditures	1,000	1,000	14,743	13,743
Refund of prior year's receipts	(1,000)	(1,000)	-	1,000
Transfers (out)	(130,100)	(130,100)	(125,532)	4,568
Advances (out)	(8,900)	(8,900)	-	8,900
Sale of assets	-	-	265	265
Total other financing sources (uses)	<u>(139,000)</u>	<u>(139,000)</u>	<u>(110,524)</u>	<u>28,476</u>
Net change in fund balance	2,648	2,648	344,088	341,440
Fund balance at beginning of year	2,927,269	2,927,269	2,927,269	-
Prior year encumbrances appropriated	11,034	11,034	11,034	-
Fund balance at end of year	<u>\$ 2,940,951</u>	<u>\$ 2,940,951</u>	<u>\$ 3,282,391</u>	<u>\$ 341,440</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

STATEMENT OF CASH BASIS FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	Private Purpose Trust	Agency
Assets:		
Equity in pooled cash and cash equivalents. . .	\$ 27,828	\$ 26,874
Total assets	27,828	26,874
 Net position:		
Endowments.	\$ 10,000	\$ -
Held in trust for scholarships	17,828	-
Held for student activities	-	26,874
Total net position.	\$ 27,828	\$ 26,874

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

STATEMENT OF CASH BASIS CHANGE IN FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Private Purpose Trust
Additions:	
Interest	\$ 141
Deductions:	
Non-instructional services	850
Change in net position	(709)
Net position at beginning of year.	28,537
Net position at end of year	\$ 27,828

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The School District serves an area of approximately twenty-seven square miles. It is located in Auglaize and Shelby Counties. It is staffed by 24 classified employees and 34 certified teaching personnel who provide services to 386 students and other community members. The School District currently operates one school building.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

The School District participates in five jointly governed organizations and three insurance pools. These organizations are the Auglaize County Local Professional Development Committee, Western Ohio Computer Organization, Auglaize County Educational Academy, Southwest Ohio Educational Purchasing Council, Southwestern Ohio Instructional Technology Association, Mercer-Auglaize Area Schools Employee Welfare Benefit Trust, and the Better Business Bureau of Central Ohio Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 17 and 18 to the basic financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

B. Basis of Presentation

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

Government-Wide Financial Statements - The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

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

C. Fund Accounting

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

GOVERNMENTAL FUNDS

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. The School District's major governmental funds are as follows:

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

Bond Retirement Fund - The bond retirement fund is used to account for the retirement of bonds.

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

FIDUCIARY FUNDS

The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for various student-managed activities.

D. Basis of Accounting

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

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

E. Budgetary Process

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources requested by the School District prior to fiscal year-end.

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

F. Cash and Investments

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

During fiscal year 2017, investments consisted of negotiable certificates of deposit, nonnegotiable certificates of deposit, federal agency securities, and U.S. Government money market accounts which are reported at cost in accordance with the cash basis of accounting.

The School District allocates interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2017 was \$22,862, which includes \$8,989 assigned from other School District funds.

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

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

G. Capital Assets

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

H. Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. Long-Term Obligations

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

J. Net Position

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

K. Fund Balance

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

Non-spendable - The non-spendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

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

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

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

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

L. Interfund Activity

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

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

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

M. Pensions

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2017, the School District has implemented GASB Statement No. 77, "*Tax Abatement Disclosures*", GASB Statement No. 78, "*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*", GASB Statement No. 80, "*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*" and GASB Statement No. 82, "*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*".

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. These disclosures were incorporated in the District's fiscal year 2017 financial statements (see Note 21); however, there was no effect on beginning net position/fund balance.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the School District.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the School District.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the School District.

B. Deficit Fund Balances

Fund balances at June 30, 2017 included the following individual fund deficit:

<u>Nonmajor fund</u>	<u>Deficit</u>
Miscellaneous federal grants	\$ 3,850

The general fund is liable for any deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities.

C. Compliance

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, 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 obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days and two hundred seventy days, respectively, from the purchase date in an amount not to exceed forty percent of the interim monies available for investment at any one time; and,

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year end, the School District had \$100 in undeposited cash on hand which is included on the financial statements of the School District as part of "equity in pooled cash and cash equivalents."

B. Deposits with Financial Institutions

At June 30, 2017, the carrying amount of all School District deposits (including nonnegotiable certificates of deposit) was \$3,287,305. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, \$2,926,521 of the School District's bank balance of \$3,453,851 was exposed to custodial risk as discussed below, while \$527,330 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the School District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School District. The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of June 30, 2017, the School District had the following investments and maturities:

Investment Type	Carrying Value	6 Months or Less	Investment Maturities			
			7 to 12 Months	13 to 18 Months	19 to 24 Months	Greater than 24 Months
Negotiable CDs	\$ 1,048,000	\$ 200,000	\$ 400,000	\$ 200,000	\$ 248,000	\$ -
FHLB	200,000	-	-	-	-	200,000
FHLMC	300,000	-	-	-	-	300,000
U.S. Government money market mutual fund	1,134	1,134	-	-	-	-
Total	\$ 1,549,134	\$ 201,134	\$ 400,000	\$ 200,000	\$ 248,000	\$ 500,000

The weighted average maturity of investments is 1.94 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the School District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The School District's investments in federal agency securities were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The U.S. Government money market was not rated. The negotiable certificates of deposit are fully covered by FDIC and are not rated. The School District's investment policy does not specifically address credit risk beyond requiring the School District to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities 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 School District's name. The School District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The School District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the School District at June 30, 2017:

Investment Type	Carrying Value	% of Total
Negotiable CDs	\$ 1,048,000	67.65
FHLB	200,000	12.91
FHLMC	300,000	19.37
U.S. Government money market mutual fund	1,134	0.07
Total	\$ 1,549,134	100.00

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and cash equivalents as reported on the statement of net position as of June 30, 2017:

<u>Cash and investments per note:</u>	
Carrying amount of deposits	\$ 3,287,305
Investments	1,549,134
Cash on hand	100
Total	\$ 4,836,539
 <u>Cash and cash equivalents per statement of net position:</u>	
Governmental activities	\$ 4,781,837
Private-purpose trust	27,828
Agency fund	26,874
Total	\$ 4,836,539

NOTE 5 - PROPERTY TAXES

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenues received in calendar year 2017 represent the collection of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed values as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2017 represent the collection of calendar year 2016 taxes. Public utility real and tangible personal property taxes received in calendar year 2017 became a lien on December 31, 2015, were levied after April 1, 2016, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The School District receives property taxes from Auglaize and Shelby Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2017, are available to finance fiscal year 2017 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 5 - PROPERTY TAXES - (Continued)

The assessed values upon which fiscal year 2017 taxes were collected are:

	2016 Second Half Collections		2017 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 62,244,040	98.43	\$ 63,005,060	98.37
Public utility personal	<u>991,080</u>	<u>1.57</u>	<u>1,045,530</u>	<u>1.63</u>
Total	<u>\$ 63,235,120</u>	<u>100.00</u>	<u>\$ 64,050,590</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$54.65		\$54.65	

NOTE 6 - INCOME TAXES

The School District levies a voted tax of 1.25 percent for general operations on the income of residents and of estates. The 1 percent tax levy was renewed effective on January 1, 2015, for a continuing period of time and .25 percent was effective on January 1, 2007, for a twenty-three year period. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

NOTE 7 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2017, consisted of the following, as reported in the fund financial statements:

Transfers to nonmajor governmental funds from:

General fund	<u>\$ 125,532</u>
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Transfers are used to (1) move cash receipts from the fund that statute or budget requires to collect them to the fund that statute or budget requires to disburse them, and (2) to use unrestricted cash receipts collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported in the statement of activities.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 8 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the School District contracted with the Southwest Ohio Education Purchasing Council for the following insurance coverage.

Buildings and Contents	\$ 350,000,000
Flood	25,000,000
Earthquake	25,000,000
General Liability Aggregate	5,000,000
Automobile	1,000,000

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

For fiscal year 2017, the School District participated in the Southwest Ohio Education Purchasing Council Plan (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

The School District participates in the Mercer-Auglaize Area Schools Employee Welfare Benefits Trust (Trust), a public entity shared risk pool consisting of eleven local school districts and two educational service centers. The School District pays monthly premiums to the Trust for employee medical, drug, and dental insurance coverage. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

The School District participates in the Better Business Bureau of Central Ohio Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The third party administrator, CompManagement, Sedgwick Claims Management Services, Inc., reviews each participant's claims experience and determines the rating tier for that participant. A common premium rate is applied to all participants in a given rating tier. Each participant pays its workers' compensation premium to the State based on the rate for their rating tier rather than its individual rate. CompManagement, Sedgwick Claims Management Services, Inc., provides administrative, cost control and actuarial services to the Plan.

NOTE 9 - COMMITMENTS

The School District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are reservations of fund balance for subsequent-year disbursements and may be reported as part of restricted, committed, or assigned classifications of fund balance. At year-end, the School District's commitments for encumbrances in the governmental funds were as follows:

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 9 - COMMITMENTS - (Continued)

<u>Fund</u>	<u>Year - End Encumbrances</u>
General	\$ 2,450
Other governmental	208
Total	\$ 2,658

NOTE 10 - PENSION PLANS

Net Pension Liability

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 10 - PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially reduced benefits	Age 60 with 5 years of service credit 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.

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the employer contribution rate was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$76,314 for fiscal year 2017.

Plan Description - State Teachers Retirement System (STRS)

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

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 10 - PENSION PLANS - (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 will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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, 11.5% of the 13% member rate goes to the DC Plan and the remaining 1.5% 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 at age 50.

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 that 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 fiscal year 2017, plan members were required to contribute 14 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The 2017 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS Ohio was \$287,734 for fiscal year 2017.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - PENSION PLANS - (Continued)

Net Pension Liability

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS Ohio</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.01548520%	0.01796820%	
Proportion of the net pension liability current measurement date	<u>0.01621500%</u>	<u>0.01852630%</u>	
Change in proportionate share	<u>0.00072980%</u>	<u>0.00055810%</u>	
Proportionate share of the net pension liability	\$ 1,186,788	\$ 6,201,311	\$ 7,388,099

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.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 10 - PENSION PLANS - (Continued)

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	3 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - PENSION PLANS - (Continued)

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

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

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

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
School District's proportionate share of the net pension liability	\$ 1,571,234	\$ 1,186,788	\$ 864,992

Actuarial Assumptions - STRS Ohio

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 10 - PENSION PLANS - (Continued)

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment rate of return	7.75 percent, net of investment expenses
Cost-of-living adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

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 not set back from age 90 and above.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return *</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
 Total	 <u>100.00 %</u>	 <u>7.61 %</u>

*10-Year geometric nominal returns, which include the real rate of return and inflation of 2.50% and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate - 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. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 10 - PENSION PLANS - (Continued)

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 8,241,038	\$ 6,201,311	\$ 4,480,681

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of July 1, 2017. The most significant changes are a reduction in the expected investment return to 7.45% from 7.75% and a change to updated generational mortality tables. Although the exact amount of these changes is not known, the impact to the School District's net pension liability is expected to be significant.

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. 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. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 11 - POSTEMPLOYMENT BENEFITS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2017, no portion of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. 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.

The School District's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$9,502, \$8,331, and \$11,996, respectively. 100 percent has been contributed for fiscal years 2017, 2016 and 2015.

B. State Teachers Retirement System of Ohio

Plan Description - The School District contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2017, STRS Ohio did not allocate any employer contributions to the Health Care Stabilization Fund. The School District did not make any contributions for health care for the fiscal years ended June 30, 2017, 2016 and 2015.

NOTE 12 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred thirty days for all employees. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit to a maximum of fifty-seven and a half days for all employees.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 12 - OTHER EMPLOYEE BENEFITS - (Continued)

B. Health Care Benefits

The School District offers medical, drug, and dental insurance to most employees through the Mercer-Auglaize Area Schools Employee Welfare Benefits Trust. In addition, the School District offers life insurance through American United Life Insurance Company.

NOTE 13 - CAPITALIZED LEASE - LESSEE DISCLOSURE

During a prior fiscal year, the School District entered into a capitalized lease for copier equipment. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. Principal and interest payments are made from the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease as of June 30, 2017:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 10,471
2019	10,471
2020	10,470
2021	<u>10,470</u>
Total minimum lease payments	41,882
Less: amount representing interest	<u>(3,993)</u>
Total	<u>\$ 37,889</u>

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 14 - LONG-TERM OBLIGATIONS

Changes in the School District's long-term obligations during fiscal year 2017 were as follows:

	Balance 6/30/16	Additions	Reductions	Balance 6/30/17	Due Within One Year
General Obligation Bonds					
2007 OSFC Building					
Serial Bonds 4%	\$ 270,000	\$ -	\$ (270,000)	\$ -	\$ -
Term Bonds 4-4.125%	1,085,000	-	(1,085,000)	-	-
Capital Appreciation Bonds	54,999	-	(29,025)	25,974	25,974
2007 High School Refunding					
Serial Bonds 4%	415,000	-	-	415,000	-
Term Bonds 4-4.125%	595,000	-	-	595,000	-
Capital Appreciation Bonds	79,998	-	(42,316)	37,682	37,682
2016 School Improvement Refunding					
Serial Bonds 3.42%	-	1,355,000	-	1,355,000	75,000
Loan Payable 4.47%	308,929	-	(98,906)	210,023	102,951
Capital lease agreement	46,111	-	(8,222)	37,889	8,776
Total General Long-Term Obligations	<u>\$ 2,855,037</u>	<u>\$ 1,355,000</u>	<u>\$ (1,533,469)</u>	<u>\$ 2,676,568</u>	<u>\$ 250,383</u>

2007 OSFC Building General Obligation Bonds - On March 28, 2007, the School District issued \$1,999,999 in voted general obligation bonds to renovate, improve, expand, furnish, and equip the current school facilities. The bond issue included serial, term, and capital appreciation bonds, in the original amount of \$860,000, \$1,085,000, and \$54,999, respectively. The bonds were issued for a twenty-three year period, with final maturity during fiscal year 2030. The bonds are being retired from the Bond Retirement debt service fund, with the proceeds of a 3.3 mill voted property tax levy.

The capital appreciation bonds will mature in fiscal year 2018. The maturity amount of the bonds is \$85,000.

During fiscal year 2017, the remaining \$1,355,000 of the serial and term bonds were refunded by the Series 2016, refunding bonds.

2007 High School Refunding General Obligation Bonds - On March 28, 2007, the School District issued \$1,234,998 in voted general obligation bonds to refund \$1,235,000 of the High School Building general obligation bonds. The refunding bond issue included serial, term, and capital appreciation bonds, in the original amount of \$560,000, \$595,000, and \$79,998, respectively. The bonds were issued for an eighteen year period, with final maturity during fiscal year 2025. The bonds are being retired from the Bond Retirement debt service fund, with the proceeds of a 2.5 mill voted property tax levy.

The term bonds maturing on December 1, 2022, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, 2021 (with the balance of \$155,000 to be paid at stated maturity on December 1, 2022), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2021	\$ 145,000

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

The term bonds maturing on December 1, 2024, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District. The mandatory redemption is to occur on December 1, 2023 (with the balance of \$160,000 to be paid at stated maturity on December 1, 2024), at a redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, according to the following schedule:

Year	Amount
2023	\$ 155,000

The term bonds maturing on December 1, 2025, are subject to mandatory sinking fund redemption, in part by lot, pursuant to the terms of the mandatory sinking fund redemption requirements of the School District, in the amount of \$135,000.

The serial bonds maturing after December 1, 2017, are subject to redemption at the option of the School District, either in whole or in part, in such order as the School District shall determine, on any interest payment date on or after December 1, 2008, at 100 percent of the principal amount redeemed plus accrued interest to the redemption date.

The capital appreciation bonds will mature in fiscal year 2018. The maturity amount of the bonds is \$130,000.

All of the refunded bonds pertaining to the 1998 High School Building general obligation refunding bonds have been retired by the escrow agent.

2016 School Improvement Refunding General Obligation Bonds - On August 31, 2016, the School District issued \$1,355,000 in general obligation school facilities construction improvement bonds to refund the remaining \$1,355,000 of the 2007 OSFC Building serial and term bonds. The refunding bonds issue included serial bonds in the amount of \$1,355,000 at an interest rate of 3.42 percent. Interest payments on the bonds are due June 1 and December 1 of each year. The refunding bonds were issued for a nine year period, with final maturity during fiscal year 2025. The bonds are being retired from the Bond Retirement debt service fund.

Loan Payable - On September 16, 2008, the School District obtained a loan, in the amount of \$900,000, to pay for the locally funded initiatives portion of the Ohio School Facilities Commission building project. The loan was issued for a ten year period, with final maturity during fiscal year 2019. The loan is being retired through the Building fund (a nonmajor governmental fund) with transfers from the General Fund. The School District's overall debt margin was \$4,012,525 with an un-voted debt margin of \$64,051 at June 30, 2017.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

Principal and interest requirements to retire the general long-term obligations outstanding at June 30, 2017 were as follows:

Fiscal Year Ending June 30,	General Obligation Bonds					
	Serial & Term			Capital Appreciation		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 75,000	\$ 85,459	\$ 160,459	\$ 63,656	\$ 151,344	\$ 215,000
2019	290,000	78,840	368,840	-	-	-
2020	310,000	67,797	377,797	-	-	-
2021	320,000	56,197	376,197	-	-	-
2022	330,000	44,242	374,242	-	-	-
2023 - 2026	1,040,000	56,980	1,096,980	-	-	-
Total	<u>\$ 2,365,000</u>	<u>\$ 389,515</u>	<u>\$ 2,754,515</u>	<u>\$ 63,656</u>	<u>\$ 151,344</u>	<u>\$ 215,000</u>

Fiscal Year Ending June 30,	Loans Payable		
	Principal	Interest	Total
2018	\$ 102,951	\$ 8,593	\$ 111,544
2019	<u>107,072</u>	<u>4,383</u>	<u>111,455</u>
Total	<u>\$ 210,023</u>	<u>\$ 12,976</u>	<u>\$ 222,999</u>

The interest on the capital appreciation bonds represents the accretion of the deep-discounted bonds from the initial value at the time of issuance of their value at final maturity.

NOTE 15 - SET ASIDES

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end. This amount must be carried forward and used for the same purpose in future years. The following cash basis information identifies the change in the fund balance for capital improvements during fiscal year 2017.

	Capital Improvements
Balance June 30, 2016	\$ -
Current Year Set Aside Requirement	70,715
Current Year Offsets	<u>(70,715)</u>
Balance June 30, 2017	<u>\$ -</u>

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 16 - DONOR RESTRICTED ENDOWMENTS

The School District's private purpose trust fund includes donor restricted endowments. Endowments, in the amount of \$10,000, represent the principal portion. The amount of net appreciation in donor restricted investments that is available for expenditures by the School District is \$17,828 and is included as held in trust for scholarships. State law permits the School District to appropriate, for purposes consistent with the endowment's intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowment indicates that the interest should be used to provide a scholarship each year.

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

A. Auglaize County Local Professional Development Committee

The Auglaize County Local Professional Development Committee is a consortium operated under the direction of a Board consisting of the president of the local teachers' union from each member, one principal from each local school district, the superintendent from each local school district, and the project coordinator. The jointly governed organization was formed to provide an appropriate process for educators to create an Individual Professional Development Plan that will facilitate professional growth opportunities and effectively meet state licensure requirements. Financial information can be obtained from the Auglaize County Educational Service Center, 1045 Dearbaugh Avenue, Suite 2, Wapakoneta, Ohio 45895.

B. Western Ohio Computer Organization

The School District is a participant in the Western Ohio Computer Organization (WOCO). WOCO is a council of government consisting of an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami, and Shelby counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member school districts within each county plus a representative from the fiscal agent school district. During fiscal year 2017, the School District paid \$81,776 to WOCO for various services. Financial information can be obtained from the Western Ohio Computer Organization, 129 East Court Street, Sidney, Ohio 45365.

C. Auglaize County Educational Academy

The School District is a participant in the Auglaize County Educational Academy (ACEA), which is a community school. The ACEA is an association of the school districts within Auglaize County to provide general curricular education for kindergarten through twelfth grade students for gifted, regular, and special education instruction through the use of a virtual curriculum. The governing board of the ACEA consists of the superintendents from each of the participating school districts. Financial information can be obtained from the Auglaize County Educational Academy, 1130 East Albert Street, Lima, Ohio 45804.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS - (Continued)

D. Southwest Ohio Educational Purchasing Council

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 128 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group.

During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2017, the School District paid \$3,737 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

E. Southwestern Ohio Instructional Technology Association

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-three representatives of SOITA member schools or institutions. Twenty-one representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Brown, Butler, Champaign, Clark, Clermont, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members in the State-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

NOTE 18 - INSURANCE POOLS

A. Southwest Ohio Educational Purchasing Council

Southwestern Ohio Educational Purchasing Council Property, Fleet and Liability Insurance Program – The School District participates in the Southwestern Ohio Educational Purchasing Council Property, Fleet and Liability Insurance Program (PFL). The PFL's business affairs are conducted by a six member committee consisting of various PFL representatives that are elected by the general assembly. The purpose of the program is to jointly provide or obtain casualty, property, employer liability, general liability, risk management, professional liability, group coverage and other protections for participating school districts. During fiscal year 2017, the School District paid \$17,381 for insurance coverage. Financial information can be obtained from Ken Swink, Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 18 - INSURANCE POOLS - (Continued)

B. Mercer-Auglaize Area Schools Employee Welfare Benefit Trust

The School District participates in a public entity shared risk pool consisting of eleven school districts and two educational service centers. The Mercer-Auglaize Area Schools Employee Welfare Benefit Trust (Trust) is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, drug, and dental benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Huntington Bank, concerning aspects of the administration of the Trust.

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from the Mercer County Educational Service Center, 441 East Market Street, Celina, Ohio 45822.

C. Better Business Bureau of Central Ohio Workers' Compensation Group Rating Plan

The School District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Better Business Bureau of Central Ohio Workers' Compensation Group Rating Plan (Plan) was established through the Better Business Bureau of Ohio as an insurance purchasing pool. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

NOTE 19 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2017.

B. Litigation

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

C. Foundation Funding

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 20 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balances on the cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The statement of receipts, disbursements and changes in fund balance - budget and actual (budgetary basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the cash basis is outstanding year end encumbrances are treated as disbursements (budget) rather than a reservation of fund balance (cash).

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis statement:

Net Change in Fund Balance	
	<u>General fund</u>
Budget basis	\$ 344,088
Funds budgeted elsewhere **	10,987
Adjustment for encumbrances	<u>2,450</u>
Cash basis	<u>\$ 357,525</u>

** As part of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting", certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a cash basis. This includes the uniform school supplies fund and the public school support fund.

NOTE 21 - TAX ABATEMENTS ENTERED INTO BY OTHER GOVERNMENTS

Community Reinvestment Areas

The Village of New Knoxville provides tax abatements through Community Reinvestment Areas (CRAs).

Under the authority of Ohio Revised Code (ORC) Section 3735.67, the CRA program is an economic development tool administered by municipal and county governments that provides real property tax exemptions for property owners who renovate existing or construct new buildings. CRA's are areas of land in which property owners can receive tax incentives for investing in real property improvements. Under the CRA program, local governments petition to the Ohio Development Services Agency (ODSA) for confirmation of a geographical area in which investment in housing is desired. Once an area is confirmed by the ODSA, local governments may offer real property tax exemptions to taxpayers that invest in that area. Property owners in the CRA can receive temporary tax abatements for renovation of existing structures and new construction in these areas. Property owners apply to the local legislative authority for approval to renovate or construct in the CRA. Upon approval and certification of completion, the amount of the abatement is deducted from the individual or entity's property tax bill.

The CRA agreements entered into by the Village of New Knoxville affect the property tax receipts collected and distributed to the District. Under these agreements, the District's property taxes were reduced by \$11,172.



Julian & Grube, Inc.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

New Knoxville Local School District
Auglaize County
P.O. Box 476
345 South Main Street
New Knoxville, Ohio 45871

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the New Knoxville Local School District, Auglaize County, Ohio, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the New Knoxville Local School District's basic financial statements and have issued our report thereon dated February 26, 2019, wherein we noted the New Knoxville Local School 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 New Knoxville Local School District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the New Knoxville Local School District's internal control. Accordingly, we have not opined on it.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses. We consider findings 2017-002 and 2017-003 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the New Knoxville Local School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying of findings and responses as item 2017-001.

New Knoxville Local School District's Responses to Findings

The New Knoxville Local School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not subject the New Knoxville Local School 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 New Knoxville Local School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the New Knoxville Local School District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Julian & Grube, Inc.
February 26, 2019

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2017-001

Noncompliance

Ohio Revised Code Section 117.38 provides 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 Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Revised Code Section 117.38. Ohio Administrative Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP).

The School District prepares its financial statements in accordance with the cash-basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This presentation differs from (GAAP).

There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. Failure to prepare proper GAAP financial statements may result in the District being fined or other administrative remedies.

The School District should prepare its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

Client Response:

The School District has decided not to file financial statements according to generally accepted accounting principles due to a cost benefit analysis. The School District will continue to evaluate this each year.

Finding Number	2017-002
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Material Weakness - Financial Statement Presentation

Accurate financial reporting is required in order to provide management and citizens with objective and timely information to enable well-informed decisions.

Certain adjustments were made to the Hinkle filed financial statements and notes to the financial statements.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2017-002 - (Continued)

The audited financial statements and School District records have been adjusted for the misstatements identified during the audit.

We recommend that the School District implement additional control procedures that enable management to timely record information/transactions in their accounting system as well as prevent or detect and correct potential misstatements in the financial statements prior to filing.

Client Response:

The School District entered into complex transactions during the fiscal year and implemented a new accounting system as well as a change in Treasurer which contributed to these adjustments being required. The School District will consider implementing additional internal controls to help alleviate these adjustments in the future.

Finding Number	2017-003
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Material Weakness – Bank Reconciliation

The completion of timely monthly bank reconciliations to zero unidentified differences is critical to financial data reporting for both the School District’s Board of Education and its citizens.

The School District was unable to provide timely monthly bank reconciliations with zero unidentified differences.

Without timely monthly bank reconciliations to zero unidentified differences the School District is at risk of mispostings of receipts and disbursements which could lead to inaccurate financial reporting and the potential for misstatements.

We recommend the School District seek outside consulting if necessary to perform timely monthly bank reconciliations with zero unidentified amounts, and present these completed bank statements to the Board of Education on a monthly basis for review and approval. This will help ensure the accuracy of reporting in a timely basis.

Client Response:

The School District began utilizing a new financial computer software during the year as well as a change in Treasurer which facilitated this function not to be completed timely. The School District has implemented this for the fiscal year ended 2019.

**NEW KNOXVILLE LOCAL SCHOOL DISTRICT
AUGLAIZE COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2017**

Finding Number	Year Initially Occurred	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2016-001	2008	<u>Noncompliance</u> : Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(B) required the School District to prepare its annual financial report in accordance with GAAP, however, the School District prepared its annual financial report with the cash basis of accounting in a report format similar to the requirements in GASB Statement No. 34.	No	Repeated as finding 2017-001

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OHIO AUDITOR OF STATE KEITH FABER



NEW KNOXVILLE LOCAL SCHOOL DISTRICT

AUGLAIZE 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
APRIL 11, 2019**