



OHIO AUDITOR OF STATE
KEITH FABER



**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY
JUNE 30, 2018**

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CARROLL COUNTY
JUNE 30, 2018**

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OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT

Brown Local School District
Carroll County
3242 Coral Road NW
Malvern, Ohio 44644

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Brown Local School District, Carroll County, Ohio, as of June 30, 2018, and the respective changes in financial position and the budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

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



Keith Faber
Auditor of State

Columbus, Ohio

May 8, 2019

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

The management's discussion and analysis of the Brown Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2018 are as follows:

- In total, net position of governmental activities increased \$3,087,468 which represents a 79.63% increase from the 2017 restated net position.
- General revenues accounted for \$8,467,893 in revenue or 82.86% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,752,025 or 17.14% of total revenues of \$10,219,918.
- The District had \$7,132,450 in expenses related to governmental activities; only \$1,752,025 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$8,467,893 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and the bond retirement fund. The general fund had \$8,217,861 in revenues and \$7,570,838 in expenditures. During fiscal 2018, the general fund's fund balance increased \$647,023 from a balance of \$5,336,106 to \$5,983,129.
- The bond retirement fund had \$10,193,100 in revenues and other financing sources and \$10,134,491 in expenditures and other financing uses. During fiscal 2018, the bond retirement fund's fund balance increased \$58,609 from a balance of \$639,036 to \$697,645.

Using these Basic Financial Statements

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

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

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

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

These two statements report the District's net position and changes in that position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the 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 District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

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

The District's statement of net position and statement of activities can be found on pages 15-16 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 12. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and bond retirement fund.

Governmental Funds

Most of the 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 an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 17-22 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 23 and 24. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 25-72 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension and net OPEB liabilities. The required supplementary information can be found on pages 74 through 87 of this report.

The District as a Whole

The statement of net position provides the perspective of the District as a whole.

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**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

The table below provides a summary of the District's net position at June 30, 2018 and June 30, 2017. The net position at June 30, 2017 has been restated as described in Note 3.A.

	Net Position	
	Governmental Activities 2018	Restated Governmental Activities 2017
<u>Assets</u>		
Current and other assets	\$ 12,553,679	\$ 11,523,286
Capital assets, net	<u>24,043,162</u>	<u>24,763,507</u>
Total assets	<u>36,596,841</u>	<u>36,286,793</u>
<u>Deferred outflows of resources</u>		
Unamortized deferred charges on debt refunding	1,641,442	704,980
Pension	2,160,770	1,855,133
OPEB	<u>71,721</u>	<u>12,206</u>
Total deferred outflows of resources	<u>3,873,933</u>	<u>2,572,319</u>
<u>Liabilities</u>		
Current liabilities	1,210,127	1,275,454
Long-term liabilities:		
Due within one year	345,328	372,309
Due in more than one year:		
Net pension liability	7,078,494	9,893,915
Net OPEB liability	1,569,631	1,996,009
Other amounts	<u>19,222,806</u>	<u>18,218,280</u>
Total liabilities	<u>29,426,386</u>	<u>31,755,967</u>
<u>Deferred inflows of resources</u>		
Property taxes levied for the next fiscal year	3,389,178	3,041,805
Pension	477,763	184,104
OPEB	<u>212,743</u>	<u>-</u>
Total deferred inflows of resources	<u>4,079,684</u>	<u>3,225,909</u>
<u>Net position</u>		
Net investment in capital assets	6,702,532	7,291,498
Restricted	1,275,633	1,354,747
Unrestricted (deficit)	<u>(1,013,461)</u>	<u>(4,769,009)</u>
Total net position	<u>\$ 6,964,704</u>	<u>\$ 3,877,236</u>

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

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

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

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

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

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

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

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

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

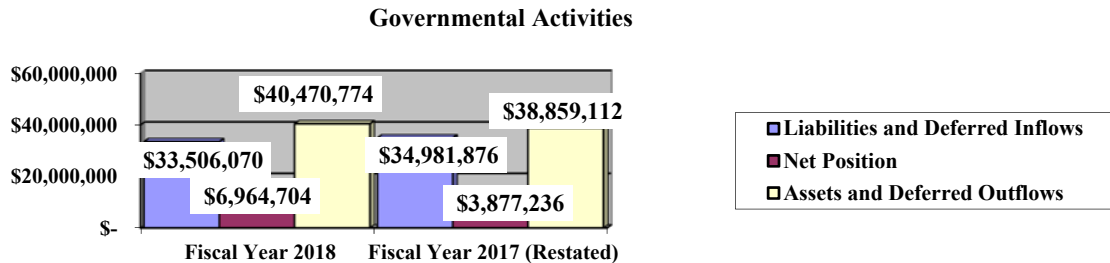
In accordance with GASB 68 and GASB 75, the District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted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

As a result of implementing GASB 75, the District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from \$5,861,039 to \$3,877,236.

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018, the District's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$6,964,704.

At year-end, capital assets represented 65.70% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles. Net investment in capital assets at June 30, 2018, was \$6,702,532. These capital assets are used to provide services to the students and are not available for future spending. A portion of the District's net position, \$1,275,633, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position is a deficit of \$1,013,461.

The graph below presents the District's governmental activities assets, deferred outflows, liabilities, deferred inflows and net position at June 30, 2018 and June 30, 2017. The amounts at June 30, 2017 have been restated as described in Note 3.A.



The table below shows the change in net position for fiscal years 2018 and 2017.

	Change in Net Position	
	Governmental Activities 2018	Restated Governmental Activities 2017
Revenues		
Program revenues:		
Charges for services and sales	\$ 772,208	\$ 776,239
Operating grants and contributions	979,817	1,018,716
Capital grants and contributions	-	135,809
General revenues:		
Property taxes	4,728,612	4,457,303
Grants and entitlements	3,614,531	3,591,840
Investment earnings	77,492	42,054
Other	47,258	21,647
Total revenues	<u>10,219,918</u>	<u>10,043,608</u>

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**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

	Change in Net Position (continued)	
	Governmental Activities 2018	Restated Governmental Activities 2017
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 2,668,481	\$ 4,605,900
Special	583,479	986,110
Vocational	60,254	158,362
Support services:		
Pupil	341,640	331,529
Instructional staff	264,707	446,277
Board of education	241,033	225,606
Administration	374,880	698,534
Fiscal	148,714	182,371
Operations and maintenance	569,488	781,891
Pupil transportation	305,891	513,025
Central	5,673	13,828
Food service operations	245,692	428,178
Other non-instructional services	355	-
Extracurricular activities	409,909	600,357
Interest and fiscal charges	912,254	867,184
Total expenses	<u>7,132,450</u>	<u>10,839,152</u>
Change in net position	3,087,468	(795,544)
Net position at beginning of year (restated)	<u>3,877,236</u>	<u>N/A</u>
Net position at end of year	<u>\$ 6,964,704</u>	<u>\$ 3,877,236</u>

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$12,206 computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$255,161. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

Total 2018 program expenses under GASB 75	\$ 7,132,450
Negative OPEB expense under GASB 75	255,161
2018 contractually required contributions	<u>17,989</u>
Adjusted 2018 program expenses	7,405,600
Total 2017 program expenses under GASB 45	<u>10,839,152</u>
Decrease in program expenses not related to OPEB	<u>\$ (3,433,552)</u>

Expenses of the governmental activities decreased \$3,706,702 or 34.20%. This decrease is primarily the result of the State Teachers Retirement System (STRS) indefinitely suspending the Cost of Living Adjustment (“COLA”) and the School Employees Retirement System (SERS) lowering the COLA from 3.00% to 2.50%. On an accrual basis, the District reported (\$2,319,556) in pension expense and (\$255,161) in OPEB expense mainly due to these benefit changes.

Governmental Activities

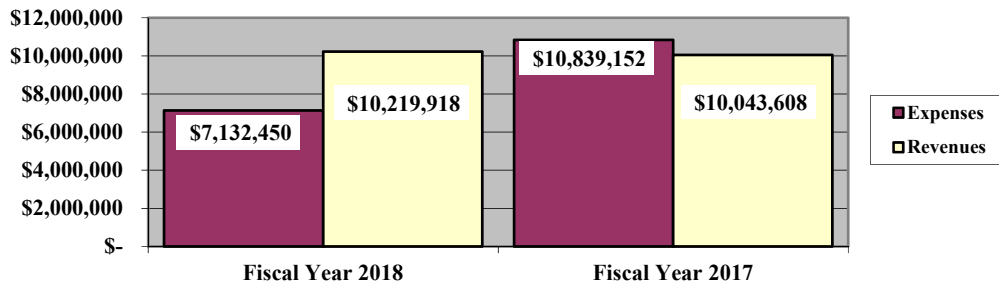
Net position of the District’s governmental activities increased \$3,087,468. Total governmental expenses of \$7,132,450 were offset by program revenues of \$1,752,025 and general revenues of \$8,467,893. Program revenues supported 24.56% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These revenue sources represent 81.64% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$3,312,214 or 46.44% of total governmental expenses for fiscal 2018.

The graph below presents the District’s governmental activities revenue and expenses for fiscal years 2018 and 2017.

Governmental Activities - Revenues and Expenses



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

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

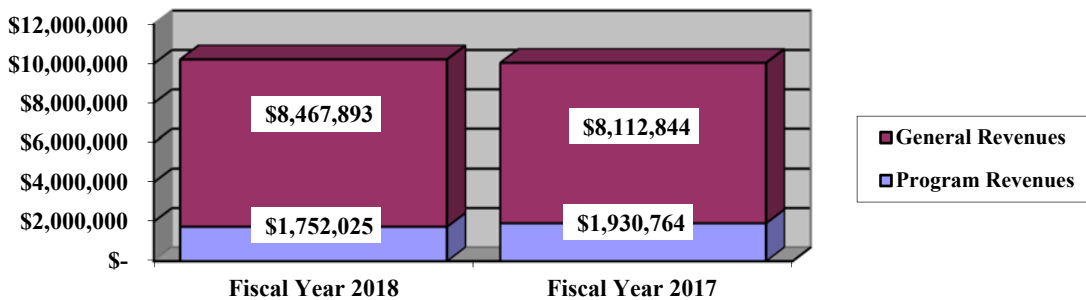
Governmental Activities

	Total Cost of Services 2018	Net Cost of Services 2018	Total Cost of Services 2017	Net Cost of Services 2017
Program expenses				
Instruction:				
Regular	\$ 2,668,481	1,841,074	\$ 4,605,900	\$ 3,656,024
Special	583,479	124,982	986,110	542,201
Vocational	60,254	52,339	158,362	91,138
Support services:				
Pupil	341,640	316,839	331,529	321,126
Instructional staff	264,707	259,243	446,277	439,313
Board of education	241,033	241,033	225,606	225,606
Administration	374,880	374,580	698,534	698,534
Fiscal	148,714	148,714	182,371	182,371
Operations and maintenance	569,488	569,488	781,891	781,891
Pupil transportation	305,891	305,891	513,025	513,025
Central	5,673	5,673	13,828	13,828
Food service operations	245,692	(36,516)	428,178	127,120
Other non-instructional services	355	(30)	-	-
Extracurricular activities	409,909	264,861	600,357	449,027
Interest and fiscal charges	912,254	912,254	867,184	867,184
Total	\$ 7,132,450	\$ 5,380,425	\$ 10,839,152	\$ 8,908,388

The dependence upon tax and other general revenues for governmental activities is apparent, as 60.94% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 75.44%.

The graph below presents the District's governmental activities revenue for fiscal year 2018 and 2017.

Governmental Activities - General and Program Revenues



**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

The District's Funds

The District's governmental funds reported a combined fund balance of \$7,887,905, which is greater than last year's total of \$7,108,168. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2018 and 2017.

	<u>Fund Balance</u> <u>June 30, 2018</u>	<u>Fund Balance</u> <u>June 30, 2017</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 5,983,129	\$ 5,336,106	\$ 647,023
Bond retirement	697,645	639,036	58,609
Other governmental	<u>1,207,131</u>	<u>1,133,026</u>	<u>74,105</u>
Total	<u>\$ 7,887,905</u>	<u>\$ 7,108,168</u>	<u>\$ 779,737</u>

General Fund

The District's general fund balance increased \$647,023. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	<u>2018</u> <u>Amount</u>	<u>2017</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Taxes	\$ 3,722,795	\$ 3,505,512	\$ 217,283	6.20 %
Tuition	548,655	494,198	54,457	11.02 %
Earnings on investments	75,293	24,871	50,422	202.73 %
Intergovernmental	3,785,467	3,744,202	41,265	1.10 %
Extracurricular	26,249	17,715	8,534	48.17 %
Other revenues	<u>59,402</u>	<u>94,847</u>	<u>(35,445)</u>	<u>(37.37) %</u>
Total	<u>\$ 8,217,861</u>	<u>\$ 7,881,345</u>	<u>\$ 336,516</u>	<u>4.27 %</u>
<u>Expenditures</u>				
Instruction	\$ 4,282,996	\$ 4,336,182	\$ (53,186)	(1.23) %
Support services	2,880,109	3,058,163	(178,054)	(5.82) %
Extracurricular activities	317,643	189,326	128,317	67.78 %
Facilities acquisition and construction	71,704	-	71,704	100.00 %
Capital outlay	-	81,501	(81,501)	(100.00) %
Debt service	<u>18,386</u>	<u>16,855</u>	<u>1,531</u>	<u>9.08 %</u>
Total	<u>\$ 7,570,838</u>	<u>\$ 7,682,027</u>	<u>\$ (111,189)</u>	<u>(1.45) %</u>

Overall general fund revenues increased 4.27%. Increase in taxes, tuition and earnings on investments are the primary reason for the revenue increase. Expenditures decreased 1.45% primarily due to the inception of a capital lease in fiscal year 2017 which resulted in a capital outlay expenditure of \$81,501 that was not repeated in fiscal year 2018.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

Bond Retirement Fund

The bond retirement fund had \$10,193,100 in revenues and other financing sources and \$10,134,491 in expenditures and other financing uses. During fiscal year 2018, the District issued refunding bonds to refund the series 2013A classroom facilities improvement bonds. The District will realize savings on the interest payments due to this transaction. During fiscal 2018, the bond retirement fund's fund balance increased \$58,609 from a balance of \$639,036 to \$697,645.

General Fund Budgeting Highlights

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

During the course of fiscal year 2018, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources were \$707,183 more than original budgeted revenues and other financing sources. Actual revenues and other financing sources for fiscal year 2018 were \$8,413,248. This represents a \$50,833 increase from final budgeted revenues and other financing sources.

General fund final budgeted appropriations and other financing uses were \$525,000 greater than original budgeted appropriations and other financing uses. The actual budget basis expenditures and other financing uses for fiscal year 2018 totaled \$8,160,954, which was \$678,921 less than the final budget appropriations and other financing uses. This is due to the Districts conservative, or, worst case scenario, budgeting approach.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2018, the District had \$24,043,162 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles, net of depreciation. This entire amount is reported in governmental activities. The following table shows fiscal year 2018 balances compared to 2017:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2018	2017
Land	\$ 447,649	\$ 447,649
Construction in progress	20,507	-
Land improvements	156,410	89,698
Building and improvements	22,602,882	23,334,466
Furniture and equipment	401,647	527,180
Vehicles	414,067	364,514
Total	\$ 24,043,162	\$ 24,763,507

The overall decrease in capital assets (net of accumulated depreciation) of \$720,345 is due to depreciation expense of \$974,830 exceeding capital asset additions of \$254,485.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

See Note 8 for additional information on the District's capital assets.

Debt Administration

At June 30, 2018, the District had \$16,891,886 in general obligation bonds and capital leases outstanding. Of this total, \$336,197 is due within one year and \$16,555,689 is due in more than one year. The following table summarizes the bonds and capital leases outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2018</u>	Governmental Activities <u>2017</u>
General obligation bonds	\$ 16,839,323	\$ 16,919,758
Capital leases	<u>52,563</u>	<u>67,995</u>
Total	<u>\$ 16,891,886</u>	<u>\$ 16,987,753</u>

See Note 10 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

The District relies on property tax revenue coupled with State revenue to maintain the education of our student body. During fiscal year 2018, the District saw modest increases in both of these revenue streams. The overall financial goal of the District is to maintain a positive cash balance and keep expenditures in line with available revenue. The District will be able to maintain that positive cash balance for the foreseeable future but, as expenditures continue to climb at a higher rate than revenue, the District will soon cross into deficit spending. The District's administration will be actively monitoring expenditures in order to delay deficit spending as long as possible.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. James Carman, Treasurer, Brown Local School District, 3242 Coral Road NW, Malvern, Ohio 44644.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
Assets:	
Equity in pooled cash and investments.	\$ 7,148,625
Receivables:	
Property taxes	4,911,102
Accounts.	9,992
Accrued interest	2,519
Intergovernmental	133,213
Prepayments	336,374
Materials and supplies inventory.	1,829
Inventory held for resale.	10,025
Capital assets:	
Nondepreciable capital assets	468,156
Depreciable capital assets, net.	23,575,006
Capital assets, net	24,043,162
Total assets.	36,596,841
 Deferred outflows of resources:	
Unamortized deferred charges on debt refunding	1,641,442
Pension.	2,160,770
OPEB	71,721
Total deferred outflows of resources	3,873,933
 Liabilities:	
Accounts payable.	80,765
Accrued wages and benefits	653,452
Intergovernmental payable	99,009
Pension and postemployment benefits payable.	102,324
Accrued interest payable	274,577
Long-term liabilities:	
Due within one year.	345,328
Due in more than one year:	
Net pension liability	7,078,494
Net OPEB liability	1,569,631
Other amounts due in more than one year	19,222,806
Total liabilities.	29,426,386
 Deferred inflows of resources:	
Property taxes levied for the next fiscal year.	3,389,178
Pension	477,763
OPEB.	212,743
Total deferred inflows of resources	4,079,684
 Net position:	
Net investment in capital assets	6,702,532
Restricted for:	
Capital projects	1,002,822
Classroom facilities maintenance	220,853
Debt service.	10,100
Locally funded programs	5,400
Student activities	28,520
Other purposes	7,938
Unrestricted (deficit)	(1,013,461)
Total net position.	\$ 6,964,704

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 2,668,481	\$ 470,636	\$ 356,771	\$ (1,841,074)
Special	583,479	78,124	380,373	(124,982)
Vocational	60,254	-	7,915	(52,339)
Support services:				
Pupil	341,640	17,789	7,012	(316,839)
Instructional staff	264,707	-	5,464	(259,243)
Board of education	241,033	-	-	(241,033)
Administration	374,880	-	300	(374,580)
Fiscal	148,714	-	-	(148,714)
Operations and maintenance	569,488	-	-	(569,488)
Pupil transportation	305,891	-	-	(305,891)
Central	5,673	-	-	(5,673)
Operation of non-instructional services:				
Food service operations	245,692	60,611	221,597	36,516
Other non-instructional services	355	-	385	30
Extracurricular activities	409,909	145,048	-	(264,861)
Interest and fiscal charges	912,254	-	-	(912,254)
Total	\$ 7,132,450	\$ 772,208	\$ 979,817	(5,380,425)
		General revenues:		
		Property taxes levied for:		
		General purposes		3,732,479
		Debt service		878,802
		Capital outlay		61,491
		Classroom facilities maintenance		55,840
		Grants and entitlements not restricted to specific programs		3,614,531
		Investment earnings		77,492
		Miscellaneous		47,258
		Total general revenues		8,467,893
		Change in net position		3,087,468
		Net position at beginning of year (restated)		3,877,236
		Net position at end of year		\$ 6,964,704

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and investments	\$ 5,687,524	\$ 159,294	\$ 1,301,807	\$ 7,148,625
Receivables:				
Property taxes	3,840,218	949,260	121,624	4,911,102
Accounts	9,992	-	-	9,992
Accrued interest	2,519	-	-	2,519
Interfund loans	5,000	-	-	5,000
Intergovernmental	17,446	-	115,767	133,213
Prepayments	-	299,538	-	299,538
Materials and supplies inventory	-	-	1,829	1,829
Inventory held for resale	-	-	10,025	10,025
Due from other funds	80,974	-	-	80,974
Total assets	<u>\$ 9,643,673</u>	<u>\$ 1,408,092</u>	<u>\$ 1,551,052</u>	<u>\$ 12,602,817</u>
Liabilities:				
Accounts payable	\$ 47,743	\$ -	\$ 33,022	\$ 80,765
Accrued wages and benefits	564,821	-	88,631	653,452
Intergovernmental payable	98,192	-	817	99,009
Pension and postemployment benefits payable	91,606	-	10,718	102,324
Interfund loans payable	-	-	5,000	5,000
Due to other funds	-	-	80,974	80,974
Total liabilities	<u>802,362</u>	<u>-</u>	<u>219,162</u>	<u>1,021,524</u>
Deferred inflows of resources:				
Property taxes levied for the next fiscal year	2,641,757	664,126	83,295	3,389,178
Delinquent property tax revenue not available	192,493	46,321	6,671	245,485
Intergovernmental revenue not available	21,413	-	34,793	56,206
Accrued interest not available	2,519	-	-	2,519
Total deferred inflows of resources	<u>2,858,182</u>	<u>710,447</u>	<u>124,759</u>	<u>3,693,388</u>
Fund balances:				
Nonspendable:				
Materials and supplies inventory	-	-	1,829	1,829
Prepays	-	299,538	-	299,538
Unclaimed monies	1,217	-	-	1,217
Restricted:				
Debt service	-	398,107	-	398,107
Capital improvements	-	-	1,002,822	1,002,822
Classroom facilities maintenance	-	-	220,853	220,853
Food service operations	-	-	23,428	23,428
Extracurricular activities	-	-	28,520	28,520
Other purposes	-	-	5,400	5,400
Committed:				
Termination benefits	159,096	-	-	159,096
Assigned:				
Student instruction	105,309	-	-	105,309
Student and staff support	249,032	-	-	249,032
Subsequent year's appropriations	1,043,567	-	-	1,043,567
Unassigned (deficit)	<u>4,424,908</u>	<u>-</u>	<u>(75,721)</u>	<u>4,349,187</u>
Total fund balances	<u>5,983,129</u>	<u>697,645</u>	<u>1,207,131</u>	<u>7,887,905</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 9,643,673</u>	<u>\$ 1,408,092</u>	<u>\$ 1,551,052</u>	<u>\$ 12,602,817</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2018

Total governmental fund balances		\$	7,887,905
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			24,043,162
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	245,485	
Accrued interest receivable		2,519	
Intergovernmental receivable		56,206	
Total			304,210
Prepaid bond insurance is not recorded as an asset in the funds, however, on the statement of net position it is report as an asset and amortized over the life of the bonds.			36,836
Unamortized premiums and discounts on bonds issued are not recognized in the funds.			(2,503,154)
Unamortized amounts on refundings are not recognized in the funds.			1,641,442
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(274,577)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows and outflows are not reported in governmental funds.			
Deferred outflows - pension		2,160,770	
Deferred inflows - pension		(477,763)	
Net pension liability		(7,078,494)	
Total			(5,395,487)
The net OPEB liability is not due and payable in the current period; therefore, the liability and related deferred inflows and outflows are not reported in governmental funds.			
Deferred outflows - OPEB		71,721	
Deferred inflows - OPEB		(212,743)	
Net OPEB liability		(1,569,631)	
Total			(1,710,653)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General obligation bonds		(16,839,323)	
Capital lease obligations		(52,563)	
Compensated absences		(173,094)	
Total			(17,064,980)
Net position of governmental activities		\$	6,964,704

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Property taxes	\$ 3,722,795	\$ 872,365	\$ 116,894	\$ 4,712,054
Tuition	548,655	-	-	548,655
Transportation fees	10,510	-	-	10,510
Earnings on investments	75,293	-	3,012	78,305
Charges for services	-	-	60,611	60,611
Extracurricular	26,249	-	126,078	152,327
Classroom materials and fees	105	-	-	105
Other local revenues	48,787	-	7,750	56,537
Intergovernmental - state	3,754,211	116,112	20,147	3,890,470
Intergovernmental - federal	31,256	-	699,106	730,362
Total revenues	<u>8,217,861</u>	<u>988,477</u>	<u>1,033,598</u>	<u>10,239,936</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,333,101	-	391,096	3,724,197
Special	810,016	-	88,503	898,519
Vocational	139,879	-	-	139,879
Support services:				
Pupil	353,143	-	-	353,143
Instructional staff	332,386	-	8,538	340,924
Board of education	220,719	22,982	3,197	246,898
Administration	611,679	-	300	611,979
Fiscal	183,059	-	-	183,059
Operations and maintenance	691,286	-	31,510	722,796
Pupil transportation	482,164	-	-	482,164
Central	5,673	-	-	5,673
Operation of non-instructional services:				
Food service operations	-	-	293,795	293,795
Other non-instructional services	-	-	355	355
Extracurricular activities	317,643	-	119,261	436,904
Facilities acquisition and construction	71,704	-	22,938	94,642
Debt service:				
Principal retirement	15,432	267,174	-	282,606
Interest and fiscal charges	2,954	624,561	-	627,515
Bond issuance costs	-	177,692	-	177,692
Accreted interest on capital appreciation bonds	-	32,826	-	32,826
Total expenditures	<u>7,570,838</u>	<u>1,125,235</u>	<u>959,493</u>	<u>9,655,566</u>
Excess (deficiency) of revenues over (under) expenditures	<u>647,023</u>	<u>(136,758)</u>	<u>74,105</u>	<u>584,370</u>
Other financing sources (uses):				
Premium on refunding bonds	-	1,094,623	-	1,094,623
Sale of refunding bonds	-	8,110,000	-	8,110,000
Transfers in	-	-	105,889	105,889
Transfers (out)	-	-	(105,889)	(105,889)
Payment to refunding bond escrow agent	-	(9,009,256)	-	(9,009,256)
Total other financing sources (uses)	<u>-</u>	<u>195,367</u>	<u>-</u>	<u>195,367</u>
Net change in fund balances	647,023	58,609	74,105	779,737
Fund balances at beginning of year	<u>5,336,106</u>	<u>639,036</u>	<u>1,133,026</u>	<u>7,108,168</u>
Fund balances at end of year	<u>\$ 5,983,129</u>	<u>\$ 697,645</u>	<u>\$ 1,207,131</u>	<u>\$ 7,887,905</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Net change in fund balances - total governmental funds	\$	779,737
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 254,485	
Current year depreciation	(974,830)	
Total		(720,345)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	16,558	
Earnings on investments	(463)	
Intergovernmental	(36,113)	
Total		(20,018)
Repayment of principal is an expenditure in the governmental funds. but the repayment reduces long-term liabilities on the statement of net position. Principal payments during the year were:		
Bonds	267,174	
Capital leases	15,432	
Accreted interest on capital appreciation bonds	32,826	
Total		315,432
Issuance of refunding bonds are recorded as other financing sources in the funds; however, in the statement of activities, they are not reported as other financing sources as they increase liabilities on the statement of net position.		
		(8,110,000)
Payment to refunded bond escrow agent for the retirement of bonds is an other financing use in the governmental funds but the payment reduces long-term liabilities on the statement of net position. Deferred charges related to bond refundings are amortized over the life of the issuance in the statement of activities. The following refunding transactions occurred during the year:		
Bonds refunded	8,110,000	
Deferred charges on refundings	899,256	
Total		9,009,256
Premiums on bonds are amortized over the life of the issuance in the statement of activities.		
		(1,094,623)
Prepaid bond insurance is amortized over the life of the issuance in the statement of activities.		
		37,907

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**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:

Decrease in accrued interest payable	\$	31,542	
Accreted interest on capital appreciation bonds		(219,565)	
Amortization of prepaid bond insurance		(1,071)	
Amortization of bond premiums and discounts		93,649	
Amortization of deferred charges		(49,509)	
Total		(144,954)	(144,954)

Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.	507,843
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Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.	2,319,556
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Contractually required OPEB contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.	17,989
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Except for amounts reported as deferred inflows/outflows, changes in the net OPEB liability are reported as OPEB expense in the statement of activities.	255,161
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Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(65,473)
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Change in net position of governmental activities	\$	3,087,468	
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
Revenues:				
From local sources:				
Property taxes	\$ 3,504,780	\$ 3,749,123	\$ 3,749,123	\$ -
Tuition.	503,114	552,549	562,603	10,054
Transportation fees.	10,000	10,000	12,078	2,078
Earnings on investments	15,000	75,000	87,188	12,188
Classroom materials and fees	250	260	105	(155)
Other local revenues	45,200	13,000	13,810	810
Intergovernmental - state	3,551,888	3,726,489	3,751,120	24,631
Intergovernmental - federal	25,000	30,029	31,256	1,227
Total revenues	<u>7,655,232</u>	<u>8,156,450</u>	<u>8,207,283</u>	<u>50,833</u>
Expenditures:				
Current:				
Instruction:				
Regular	3,461,178	3,508,253	3,392,410	115,843
Special.	934,517	1,073,302	912,442	160,860
Vocational.	137,865	146,759	139,116	7,643
Support services:				
Pupil.	456,850	466,061	445,759	20,302
Instructional staff	397,649	390,199	350,326	39,873
Board of education	257,302	253,642	235,178	18,464
Administration.	717,579	702,801	643,317	59,484
Fiscal	200,459	219,512	203,745	15,767
Operations and maintenance.	660,430	814,133	725,385	88,748
Pupil transportation	618,596	607,294	563,426	43,868
Central.	6,005	6,000	5,673	327
Extracurricular activities.	391,386	392,215	284,473	107,742
Facilities acquisition and construction	59	71,704	71,704	-
Total expenditures	<u>8,239,875</u>	<u>8,651,875</u>	<u>7,972,954</u>	<u>678,921</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(584,643)</u>	<u>(495,425)</u>	<u>234,329</u>	<u>729,754</u>
Other financing sources (uses):				
Refund of prior year's expenditures	-	1,847	1,847	-
Transfers (out).	(75,000)	(75,000)	(75,000)	-
Advances in.	-	178,000	178,000	-
Advances (out)	-	(113,000)	(113,000)	-
Sale of capital assets	-	26,118	26,118	-
Total other financing sources (uses).	<u>(75,000)</u>	<u>17,965</u>	<u>17,965</u>	<u>-</u>
Net change in fund balance	(659,643)	(477,460)	252,294	729,754
Fund balance at beginning of year	4,498,407	4,498,407	4,498,407	-
Prior year encumbrances appropriated	399,875	399,875	399,875	-
Fund balance at end of year	<u>\$ 4,238,639</u>	<u>\$ 4,420,822</u>	<u>\$ 5,150,576</u>	<u>\$ 729,754</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and investments	\$ 1,565	\$ 69,705
Total assets.	1,565	\$ 69,705
Liabilities:		
Accounts payable.	-	\$ 885
Due to students.	-	68,820
Total liabilities	-	\$ 69,705
Net position:		
Held in trust for scholarships	1,565	
Total net position.	\$ 1,565	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Private Purpose Trust
	Scholarship
Deductions:	
Scholarships awarded	\$ 1,000
Change in net position	(1,000)
Net position at beginning of year.	2,565
Net position at end of year	\$ 1,565

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Brown Local School District (the “District”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local district as defined by Section 3311.03 of the Ohio Revised Code. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state and federal agencies.

The District is located in Malvern, Carroll County, Ohio and serves an area of approximately 33 square miles including the northwest portion of Carroll County and a small portion of southeast Stark County. The District’s facilities are staffed by 28 classified employees and 59 certified employees who provide services to 735 students and other community members. The District operates one school building for students K-12 and one support building.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District’s significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, “The Financial Reporting Entity” as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34”. The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization’s Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization’s resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government’s financial statements incomplete or misleading. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government).

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

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

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATION

Stark/Portage Area Computer Consortium

The Stark/Portage Area Computer Consortium (SPARCC) is a jointly governed organization created as a regional council of governments pursuant to State statutes made up of public school districts and county boards of education from Stark, Portage, and Carroll Counties. The primary function of SPARCC is to provide data processing services to its member districts with the major emphasis being placed on accounting, inventory control and payroll services. Other areas of service provided by SPARCC include student scheduling, registration, grade reporting, and test scoring. Each member district pays an annual fee for the services provided by SPARCC.

SPARCC is governed by a board of directors comprised of each Superintendent with the Consortium. The Stark County Educational Service Center serves as the fiscal agent of the Consortium and receives funding from the State Department of Education. Each district has one vote in all matters and each member district's control over budgeting and financing of SPARCC is limited to its voting authority and any representation it may have on the Board of Directors. The continued existence of SPARCC is not dependent on the District's continued participation and no equity interest exists. The District paid \$113,872 to SPARCC during fiscal year 2018 for services. Financial information can be obtained by writing the Stark/Portage Area Computer Consortium, 6057 Strip Avenue NW, North Canton, Ohio 44720.

PUBLIC ENTITY RISK POOL

Stark County School Council of Governments Health Benefit Plan

The Stark County School Council of Governments Health Benefit Plan (Council) is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The Council is governed by an assembly which consists of one representative from each participating member. The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the Council. All Council revenues are generated from charges for services received from the participating members, based on the established premiums for the insurance plans. Each member reserves the right to terminate the plan in whole or in part, at any time. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with the terms of the contract.

INSURANCE PURCHASING POOL

Schools of Ohio Risk Sharing Authority (SORSA)

SORSA is a risk sharing insurance pool. The pool consists of 112 school districts, joint vocational schools, and educational services centers throughout Ohio who pool risk for property, crime, liability, boiler and machinery, and public official liability coverage. SORSA is governed by a board of trustees elected by members. The District pays an annual premium to SORSA for this coverage. Reinsurance is purchased to cover claims exceeding this amount and for all claims related to equipment breakdown coverage.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond retirement fund - The bond retirement fund is used to account for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources when the government is obligated in some manner for payment.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets and (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, see Notes 13 and 14 for deferred outflows of resources related the District's net pension liability and net OPEB liability, respectively. In addition, deferred outflows of resources include a deferred charge on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

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

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2018, but which were levied to finance fiscal year 2019 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the District, see Notes 13 and 14 for deferred inflows of resources related to the District's net pension liability and net OPEB liability, respectively. This deferred inflow of resources is only reported on the government-wide statement of net position.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement value of donated commodities received during the year is reported in the statement of revenues, expenditures and changes in fund balances as an expenditure with a like amount reported as intergovernmental revenue.

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

E. Budgets

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

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

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

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

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

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "equity in pooled cash and investments" on the basic financial statements.

During fiscal year 2018, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio), negotiable certificates of deposit, mutual funds, U.S. treasury bills and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

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

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2018 amounted to \$75,293, which includes \$10,701 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year end is provided in Note 4.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

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

G. Inventory

On government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market and donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis.

On the fund financial statements, reported material and supplies inventory is equally offset by a nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current position.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets are those assets specifically related to governmental activities. These assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The District maintains a capitalization threshold of \$2,500. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	5 -20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	4 - 5 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." Interfund loans that are used to cover negative cash balances are classified as "due to/from other funds". These amounts are eliminated in the governmental activities column on the statement of net position.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and sick leave to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

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

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees’ rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees age fifty-two or greater with at least twenty-two years of service, age fifty-seven or greater with at least twenty years of service or any age with at least twenty-seven years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2018 and reduced to the maximum payment allowed by labor contract and/or statute, plus any additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, net pension liability and net OPEB liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources. Bonds and capital leases are recognized as a liability on the fund financial statements when due.

L. Unamortized Bond Premiums, Discounts/Refunding Difference and Prepaid Bond Insurance

Bond premiums and discounts are amortized over the term of the bonds using the straight-line method. Bond premiums are presented as an addition to the face amount of the bonds. Bond discounts are presented as a reduction to the face amount of the bonds.

Prepaid bond insurance is amortized over the term of the bonds using the straight-line method.

For advance refunding resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This refunding difference is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a deferred outflow of resources.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

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

On the governmental fund financial statements, issuance costs, bond premiums, bond discounts, and deferred charges from refunding are recognized in the current period. The reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 10.

M. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

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

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

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

N. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The net position component “net investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is considered nonspendable in an amount equal to the carrying value of the asset on the fund financial statement.

O. Interfund Transactions

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

P. Pensions/Other Postemployment Benefits (OPEB)

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

Q. Estimates

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2018.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

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

S. Fair Market Value

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

T. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles/Restatement of Net Position

For fiscal year 2018, the District has implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension", GASB Statement No. 81 "Irrevocable Split-Interest Agreements" GASB Statement No. 85, "Omnibus 2017" and GASB Statement No. 86, "Certain Debt Extinguishments".

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 affected the District's postemployment benefit plan disclosures, as presented in Note 14 to the basic financial statements, and added required supplementary information which is presented on pages 74-87.

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

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the District.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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

A net position restatement is required in order to implement GASB Statement No 75. The governmental activities at July 1, 2017 have been restated as follows:

	Governmental Activities
Net position as previously reported	
Deferred outflows - payments	\$ 5,861,039
subsequent to measurement date	12,206
Net OPEB liability	(1,996,009)
Restated net position at July 1, 2017	\$ 3,877,236

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

B. Deficit Fund Balances

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

<u>Nonmajor funds</u>	<u>Deficit</u>
IDEA Part B	\$ 37,350
Title I	30,950
Improving Teacher Quality	5,364
Miscellaneous Federal Grants	2,057

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

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 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 from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate note debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, 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 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 District had \$600 in undeposited cash on hand which is included on the financial statements of the District as part of "equity in pooled cash and investments".

B. Deposits with Financial Institutions

At June 30, 2018, the carrying amount of all District deposits was (\$96,612). A liability was not recorded for the negative carrying amount of deposits because there was no actual overdraft, due to the "zero-balance" nature of the District's bank accounts. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2018, the District's entire bank balance of \$99,900 was covered by the FDIC.

C. Investments

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

<u>Measurement/ Investment type</u>	<u>Measurement value</u>	<u>Investment maturities</u>	
		<u>6 months or less</u>	<u>Greater than 24 months</u>
Fair value:			
Negotiable CDs	\$ 641,321	\$ 211,733	\$ 429,588
U.S. Treasury Bills	417,046	417,046	-
Cost:			
Repurchase Agreement U.S. Government	6,047,757	6,047,757	-
Money Market	3,160	3,160	-
Net asset value per share:			
STAR Ohio	206,623	206,623	-
	\$ 7,315,907	\$ 6,886,319	\$ 429,588

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

The weighted average maturity of investments is 0.16 years.

The District's investments in U.S. Treasury bills and negotiable CDs are valued using quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly (Level 2 inputs).

Interest Rate Risk: Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The District's investment policy addresses interest rate risk by requiring the consideration of cash flow requirements and market conditions in determining the term of an investment, and limiting investment portfolio maturities to five years or less.

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District's mutual funds carry a rating of AAAM and Aaa-mf by Standard & Poor's and Moody's Investor Services, respectively. The negotiable certificates of deposit are not rated. The District's investment policy does not specifically address credit risk beyond requiring the 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 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 U.S Treasury bills are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the District's name. The District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The District's investment policy addresses concentration of credit risk by requiring investments to be diversified in order to reduce the risk of loss resulting from the over concentration of assets in a specific type of security, the erosion of market value, or by default. However, the District's investment policy does not place any limit on the amount that may be invested in any one issuer.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Measurement/ Investment type</u>	<u>Measurement value</u>	<u>% of Total</u>
Fair value:		
Negotiable CDs	\$ 641,321	8.77
U.S Treasury Bills	417,046	5.70
Cost:		
Repurchase Agreement	6,047,757	82.67
U.S. Government Money Market	3,160	0.04
Net asset value per share:		
STAR Ohio	<u>206,623</u>	<u>2.82</u>
	<u>\$ 7,315,907</u>	<u>100.00</u>

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 investments as reported on the statement of net position as of June 30, 2018:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ (96,612)
Cash on hand	600
Investments	<u>7,315,907</u>
Total	<u>\$ 7,219,895</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 7,148,625
Private-purpose trust fund	1,565
Agency funds	<u>69,705</u>
Total	<u>\$ 7,219,895</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2018 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	<u>\$ 5,000</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B.** Interfund balances consisted of the following due to/from other funds at June 30, 2018, as reported on the fund statements:

<u>Due to the general fund from:</u>	<u>Amount</u>
Nonmajor governmental funds	<u>\$ 80,974</u>

The primary purpose of the interfund loans due to the general fund is to cover negative cash balances in the nonmajor governmental funds. These negative cash balances are allowable under Ohio Revised Code Section 3315.20. The interfund balances will be repaid once the anticipated revenues are received.

Amounts due to/from other funds between governmental funds are eliminated on the government-wide financial statements.

- C.** Interfund transfers for the year ended June 30, 2018, consisted of the following, as reported on the fund financial statements:

<u>Transfers from the nonmajor governmental funds to:</u>	<u>Amount</u>
Nonmajor governmental funds	<u>\$ 105,889</u>

The transfer above was made from the classroom facilities fund to the permanent improvement fund. This transfer was made during the close-out process of the District's construction project.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16. Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2018 represent the collection of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed values as of January 1, 2017, 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 2018 represent the collection of calendar year 2017 taxes. Public utility real and personal property taxes received in calendar year 2018 became a lien on December 31, 2016, were levied after April 1, 2017, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES - (Continued)

The District receives property taxes from Carroll and Stark Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2018, are available to finance fiscal year 2018 operations. The amount available as an advance at June 30, 2018 was \$1,005,968 in the general fund, \$238,813 in the bond retirement fund, \$16,645 in the permanent improvement fund (a nonmajor governmental fund) and \$15,013 in the classroom facilities maintenance fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available as an advance at June 30, 2017 was \$1,032,296 in the general fund, \$221,716 in the bond retirement fund, \$17,215 in the permanent improvement fund (a nonmajor governmental fund) and \$15,415 in the classroom facilities maintenance fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

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

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

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

	2017 Second Half Collections		2018 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 125,407,740	94.03	\$ 126,158,300	94.43
Public utility personal	<u>7,963,320</u>	<u>5.97</u>	<u>7,444,760</u>	<u>5.57</u>
Total	<u>\$ 133,371,060</u>	<u>100.00</u>	<u>\$ 133,603,060</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$50.80		\$51.50	

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

NOTE 7 - RECEIVABLES

Receivables at June 30, 2018 consisted of property taxes, accounts (billings for user charged services and student fees), accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of property taxes. A summary of the principal items of receivables reported on the statement of net position follows:

Governmental activities:

Property taxes	\$ 4,911,102
Accounts	9,992
Accrued interest	2,519
Intergovernmental	<u>133,213</u>
Total	<u>\$ 5,056,826</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year.

NOTE 8 - CAPITAL ASSETS

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

	Balance <u>June 30, 2017</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2018</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 447,649	\$ -	\$ -	\$ 447,649
Construction in progress	<u>-</u>	<u>92,211</u>	<u>(71,704)</u>	<u>20,507</u>
Total capital assets, not being depreciated	<u>447,649</u>	<u>92,211</u>	<u>(71,704)</u>	<u>468,156</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	178,232	76,750	-	254,982
Building and improvements	24,069,744	71,704	-	24,141,448
Furniture and equipment	726,371	-	-	726,371
Vehicles	<u>801,806</u>	<u>85,524</u>	<u>-</u>	<u>887,330</u>
Total capital assets, being depreciated	<u>25,776,153</u>	<u>233,978</u>	<u>-</u>	<u>26,010,131</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(88,534)	(10,038)	-	(98,572)
Building and improvements	(735,278)	(803,288)	-	(1,538,566)
Furniture and equipment	(199,191)	(125,533)	-	(324,724)
Vehicles	<u>(437,292)</u>	<u>(35,971)</u>	<u>-</u>	<u>(473,263)</u>
Total accumulated depreciation	<u>(1,460,295)</u>	<u>(974,830)</u>	<u>-</u>	<u>(2,435,125)</u>
Total depreciable capital assets, net	<u>24,315,858</u>	<u>(740,852)</u>	<u>-</u>	<u>23,575,006</u>
Governmental activities capital assets, net	<u>\$ 24,763,507</u>	<u>\$ (648,641)</u>	<u>\$ (71,704)</u>	<u>\$ 24,043,162</u>

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 507,663
Special	599
<u>Support services:</u>	
Pupil	41,212
Instructional staff	21,475
Administration	57,589
Operations and maintenance	80,806
Pupil transportation	36,321
Extracurricular activities	179,747
Food service operations	<u>49,418</u>
Total depreciation expense	<u>\$ 974,830</u>

NOTE 9 - CAPITAL LEASE

Capital Lease

In a prior fiscal year, the District entered into a capital lease for the acquisition of copiers. The lease meets the criteria of a capital lease as defined by generally accepted accounting principles, which defines a capital lease generally as one which transfers the benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and shown as debt service expenditures in the general fund. These expenditures will be reflected as function expenditures on a budgetary basis.

Capital assets consisting of office equipment have been capitalized in the amount of \$81,501. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Accumulated depreciation as of June 30, 2018 was \$32,600, leaving a current book value of \$48,901.

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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2019	18,387
2020	18,387
2021	18,387
2022	<u>1,532</u>
Total	56,693
Less: amount representing interest	<u>(4,130)</u>
Present value of minimum lease payments	<u>\$ 52,563</u>

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

NOTE 10 - LONG-TERM OBLIGATIONS

During the fiscal year 2018, the following activity occurred in governmental activities long-term obligations. The long-term obligations at June 30, 2017 have been restated as described in Note 3.A.

	Restated Balance Outstanding <u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2018</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
<u>General obligation bonds:</u>					
2013A classroom facilities bonds					
Current interest bonds	\$ 8,150,000	\$ -	\$ (8,120,000)	\$ 30,000	\$ 10,000
Capital appreciation bonds	614	-	-	614	-
Accreted interest	1,722	1,056	-	2,778	-
2013B classroom facilities bonds					
Current interest bonds	300,000	-	(150,000)	150,000	150,000
Capital appreciation bonds	62,915	-	(7,174)	55,741	5,558
Accreted interest	190,196	112,553	(27,826)	274,923	34,442
2016 refunding bonds					
Current interest bonds	7,965,000	-	(75,000)	7,890,000	80,000
Capital appreciation bonds	215,000	-	-	215,000	-
Accreted interest	34,311	51,363	-	85,674	-
2017 refunding bonds					
Current interest bonds	-	7,855,000	-	7,855,000	-
Capital appreciation bonds	-	255,000	(25,000)	230,000	30,000
Accreted interest	-	54,593	(5,000)	49,593	10,000
Total general obligation bonds payable	<u>16,919,758</u>	<u>8,329,565</u>	<u>(8,410,000)</u>	<u>16,839,323</u>	<u>320,000</u>
<u>Other long-term obligations:</u>					
Capital lease obligation	67,995	-	(15,432)	52,563	16,197
Net pension liability	9,893,915	-	(2,815,421)	7,078,494	-
Net OPEB liability	1,996,009	-	(426,378)	1,569,631	-
Compensated absences	187,371	72,600	(86,877)	173,094	9,131
Total other long-term obligations	<u>12,145,290</u>	<u>72,600</u>	<u>(3,344,108)</u>	<u>8,873,782</u>	<u>25,328</u>
Total long-term obligations governmental activities	<u>\$ 29,065,048</u>	<u>\$ 8,402,165</u>	<u>\$ (11,754,108)</u>	25,713,105	<u>\$ 345,328</u>
Unamortized discount on bonds				(9,115)	
Unamortized premium on bonds				<u>2,512,269</u>	
Total on statement of net position				<u>\$ 28,216,259</u>	

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Compensated absences: Compensated absences will be paid from the fund from which the employee's salaries are paid, which is primarily the general fund.

Net pension liability: See Note 13 for details.

Net OPEB liability: See Note 14 for details.

Capital lease obligation: See Note 9 for details.

Series 2013A classroom facilities general obligation bonds: On December 17, 2013, the District issued \$8,170,614 in general obligation bonds for the construction of a new K-12 campus.

The issue is comprised of both current interest bonds, par value \$8,170,000, and capital appreciation bonds, par value \$614. The interest rate on the current interest bonds ranges from 1.50%-5.125%. The capital appreciation bond will mature on January 15, 2029 (approximate initial offering yield to maturity 5.13%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bond is \$170,000. Total accreted interest of \$2,778 has been included in the statement of net position.

Interest payments on the current interest bonds are due on January 15 and July 15 each year. The final maturity stated in the issue is January 15, 2050. The bonds are retired from the bond retirement fund.

On July 27, 2017, the District issued \$8,110,000 (series 2017 refunding bonds) to advance refund the callable portion of the bonds. The refunded portions of the series 2013A bonds included portions of the serial bonds and all of the term bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position.

Series 2013B classroom facilities general obligation bonds: On December 17, 2013, the District issued \$8,981,875 in general obligation bonds for the construction of a new K-12 campus.

The issue is comprised of both current interest bonds, par value \$8,895,000, and capital appreciation bonds, par value \$86,875. The interest rate on the current interest bonds ranges from 1.50%-5.00%. The capital appreciation bonds mature on January 15 of the years 2016-2025 (approximate initial offering yield to maturity range 1.15% - 4.21%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$1,280,000. Total accreted interest of \$274,923 has been included in the statement of net position.

Interest payments on the current interest bonds are due on January 15 and July 15 each year. The final maturity stated in the issue is January 15, 2050. The bonds are retired from the bond retirement fund.

On October 3, 2016, the District issued \$8,295,000 (series 2016 refunding bonds) to advance refund the callable portion of the bonds. The refunded portions of the series 2013B bonds included portions of the serial bonds and all of the term bonds. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

Series 2016 classroom facilities refunding bonds - On October 3, 2016, the District issued general obligation bonds (series 2016 refunding bonds) to advance refund a portion of the series 2013B current interest general obligation bonds. The issuance proceeds of \$9,642,258 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position. The principal balance outstanding of the defeased bonds was \$8,295,000 at June 30, 2018.

The refunding issue is comprised of both current interest bonds, par value \$8,080,000, and capital appreciation bonds, par value \$215,000. The interest rate on the current interest bonds ranges from 2.00-4.00%. The capital appreciation bonds mature on January 15 of the years 2025-2031 (approximate initial offering yield to maturity range 2.05% - 2.65%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$1,755,000. The bonds will be retired through the bond retirement fund. A total of \$85,674 in accreted interest on the capital appreciation bonds has been included on the statement of net position at June 30, 2018.

The reacquisition price exceeded the net carrying amount of the old debt by \$721,228. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt.

Interest payments on the current interest bonds are due January 15 and July 15 each year. The final maturity stated on the issue is January 15, 2050.

Series 2017 classroom facilities refunding bonds - On July 27, 2017, the District issued general obligation bonds (series 2017 refunding bonds) to advance refund a portion of the series 2013A current interest general obligation bonds. The issuance proceeds of \$9,009,256 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position. The principal balance outstanding of the defeased bonds was \$8,110,000 at June 30, 2018.

The refunding issue is comprised of both current interest bonds, par value \$7,855,000, and capital appreciation bonds, par value \$255,000. The interest rate on the current interest bonds ranges from 3.50-4.50%. The capital appreciation bonds mature on January 15 of the years 2018-2028 (approximate initial offering yield to maturity range 1.20% - 3.00%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$925,000. The bonds will be retired through the bond retirement fund. A total of \$49,593 in accreted interest on the capital appreciation bonds has been included on the statement of net position at June 30, 2018.

The reacquisition price exceeded the net carrying amount of the old debt by \$985,971. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments by \$867,540 and resulted in an economic gain of \$529,476.

Interest payments on the current interest bonds are due January 15 and July 15 each year. The final maturity stated on the issue is January 15, 2050.

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The following is a summary of the District's future debt service requirements to maturity for the general obligation bonds:

Fiscal Year Ended	2013A Classroom Facilities Bonds					
	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 10,000	\$ 700	\$ 10,700	\$ -	\$ -	\$ -
2020	10,000	500	10,500	-	-	-
2021	10,000	250	10,250	-	-	-
2022	-	-	-	-	-	-
2023	-	-	-	-	-	-
2024 - 2028	-	-	-	-	-	-
2029	-	-	-	614	169,386	170,000
Total	\$ 30,000	\$ 1,450	\$ 31,450	\$ 614	\$ 169,386	\$ 170,000

Fiscal Year Ended	2013B Classroom Facilities Bonds					
	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 150,000	\$ 2,250	\$ 152,250	\$ 5,558	\$ 34,442	\$ 40,000
2020	-	-	-	17,900	172,100	190,000
2021	-	-	-	12,135	177,865	190,000
2022	-	-	-	8,227	181,773	190,000
2023	-	-	-	5,577	184,423	190,000
2024 - 2025	-	-	-	6,344	373,656	380,000
Total	\$ 150,000	\$ 2,250	\$ 152,250	\$ 55,741	\$ 1,124,259	\$ 1,180,000

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

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

2016 Classroom Facilities Refunding Bonds						
Fiscal Year Ended	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 80,000	\$ 269,900	\$ 349,900	\$ -	\$ -	\$ -
2020	80,000	268,300	348,300	-	-	-
2021	80,000	266,700	346,700	-	-	-
2022	85,000	264,300	349,300	-	-	-
2023	85,000	261,750	346,750	-	-	-
2024 - 2028	90,000	1,285,200	1,375,200	140,000	790,000	930,000
2029 - 2033	570,000	1,271,300	1,841,300	75,000	770,000	845,000
2034 - 2038	1,645,000	1,045,150	2,690,150	-	-	-
2039 - 2043	1,915,000	762,800	2,677,800	-	-	-
2044 - 2048	2,240,000	452,350	2,692,350	-	-	-
2049 - 2050	1,020,000	61,600	1,081,600	-	-	-
Total	<u>\$ 7,890,000</u>	<u>\$ 6,209,350</u>	<u>\$ 14,099,350</u>	<u>\$ 215,000</u>	<u>\$ 1,560,000</u>	<u>\$ 1,775,000</u>

2017 Classroom Facilities Refunding Bonds						
Fiscal Year Ended	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ -	\$ 326,225	\$ 326,225	\$ 30,000	\$ 10,000	\$ 40,000
2020	-	326,225	326,225	25,000	15,000	40,000
2021	-	326,225	326,225	20,000	25,000	45,000
2022	-	326,225	326,225	25,000	30,000	55,000
2023	-	326,225	326,225	15,000	35,000	50,000
2024 - 2028	-	1,631,125	1,631,125	115,000	550,000	665,000
2029 - 2033	1,095,000	1,564,725	2,659,725	-	-	-
2034 - 2038	1,510,000	1,286,600	2,796,600	-	-	-
2039 - 2043	1,875,000	918,400	2,793,400	-	-	-
2044 - 2048	2,325,000	461,775	2,786,775	-	-	-
2049 - 2050	1,050,000	55,475	1,105,475	-	-	-
Total	<u>\$ 7,855,000</u>	<u>\$ 7,549,225</u>	<u>\$ 15,404,225</u>	<u>\$ 230,000</u>	<u>\$ 665,000</u>	<u>\$ 895,000</u>

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Administrative and classified employees with greater than 240 day contracts earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and classified staff with less than 240 day contracts do not earn vacation time.

Teachers, administrators and classified employees earn sick leave at the rate of two days per worked month. Sick leave may be accumulated up to a maximum of 288 days for certificated and 325 days for remaining personnel. Upon retirement, payment is made for 25 percent of accrued, but unused sick leave credit to a maximum of 72 days for certificated, 70 for classified, and 75 for administrator employees. An employee receiving such payment must meet the retirement provisions set by STRS Ohio and SERS.

B. Insurance Benefits

The District provides life insurance and accidental death and dismemberment insurance to contracted employees through Self-Funded Plans, Incorporated. The Board pays the cost of the monthly premium, \$7.50 per certificated employee and \$4.38 per classified employee.

The District also provides medical/surgical insurance, prescription drug, vision, and dental insurance through the Stark County Schools Council of Governments to all eligible employees. Employees have the option of choosing a traditional comprehensive plan with 80 percent co-payment of major medical expenses after deductibles or a Preferred Provider Organization (Medical Mutual or Aultcare) plan with a 90 percent co-pay of major medical expenses after deductibles. Monthly premiums for family/single are \$1,673.34/\$688.83 for medical, \$45.83/\$18.46 for vision, and \$215.78/\$87.47 for dental.

NOTE 12 - RISK MANAGEMENT

A. Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and natural disasters. During fiscal year 2018, the District has contracted with SORSA (Schools of Ohio Risk Sharing Authority), a risk sharing pool, for various types of insurance as follows:

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

NOTE 12 - RISK MANAGEMENT - (Continued)

Types of Coverage	Coverage Amount
General Liability	\$ 15,000,000
Educators Legal Liability	15,000,000
Automobile Liability:	
Bodily Injury & Property Damage - per occurrence	15,000,000
Medical Payments:	
Per occurrence	10,000
Aggregate	25,000
Uninsured/Underinsured Motorist:	
Per person	100,000
Per occurrence	1,000,000
Automobile Physical Damage	Actual Cash Value

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

B. Workers' Compensation

The District participates in a workers compensation program jointly sponsored by the Ohio Association of School Business Officials (OASBO) and the Ohio School Board Association (OSBA), known as SchoolComp. CompManagement, Inc. (CMI) is the program's third party administrator. SchoolComp serves to group its members' risks for the purpose of obtaining a favorable experience rating to determine its premium liability to the Ohio Bureau of Workers' Compensation (OBWC) and the Ohio Workers' Compensation Fund. This may be accomplished through participation in a group rating program or through group retrospective rating. The District has chosen to participate in the group rating program for 2018. Participation in SchoolComp is restricted to members who meet enrollment criteria and are jointly in good standing with OASBO and OSBA. OASBO and OSBA are certified sponsors recognized by OBWC.

NOTE 13 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

The net pension liability represents the 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.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before 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 years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

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CARROLL COUNTY, OHIO**

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

The District's contractually required contribution to SERS was \$115,258 for fiscal year 2018. Of this amount, \$11,417 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - 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 website at www.strsoh.org.

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

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

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit 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 2018, plan members were required to contribute 14 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$392,585 for fiscal year 2018. Of this amount, \$65,424 is reported as pension and postemployment benefits payable.

Net Pension Liability

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

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.02420210%	0.02426595%	
Proportion of the net pension liability current measurement date	<u>0.02362100%</u>	<u>0.02385662%</u>	
Change in proportionate share	<u>-0.00058110%</u>	<u>-0.00040933%</u>	
Proportionate share of the net pension liability	\$ 1,411,303	\$ 5,667,191	\$ 7,078,494
Pension expense	\$ (85,834)	\$ (2,233,722)	\$ (2,319,556)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 60,740	\$ 218,841	\$ 279,581
Changes of assumptions	72,979	1,239,477	1,312,456
Difference between District contributions and proportionate share of contributions/ change in proportionate share	-	60,890	60,890
District contributions subsequent to the measurement date	<u>115,258</u>	<u>392,585</u>	<u>507,843</u>
Total deferred outflows of resources	<u>\$ 248,977</u>	<u>\$ 1,911,793</u>	<u>\$ 2,160,770</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ -	\$ 45,675	\$ 45,675
Net difference between projected and actual earnings on pension plan investments	6,700	187,023	193,723
Difference between District contributions and proportionate share of contributions/ change in proportionate share	<u>58,437</u>	<u>179,928</u>	<u>238,365</u>
Total deferred inflows of resources	<u>\$ 65,137</u>	<u>\$ 412,626</u>	<u>\$ 477,763</u>

**BROWN LOCAL SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

\$507,843 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2019	\$ 21,570	\$ 209,558	\$ 231,128
2020	65,231	463,976	529,207
2021	14,683	358,202	372,885
2022	<u>(32,902)</u>	<u>74,846</u>	<u>41,944</u>
Total	<u>\$ 68,582</u>	<u>\$ 1,106,582</u>	<u>\$ 1,175,164</u>

Actuarial Assumptions - SERS

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

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

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

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

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	2.50 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US 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><u>100.00 %</u></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.

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 1,958,521	\$ 1,411,303	\$ 952,895

Actuarial Assumptions - STRS Ohio

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

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

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

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

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

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

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

STRS 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	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	2.25
Total	<u><u>100.00 %</u></u>	

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

Discount Rate - The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

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

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NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net pension liability	\$ 8,123,726	\$ 5,667,191	\$ 3,597,929

NOTE 14 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

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

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

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

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

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

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

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

Plan Description - School Employees Retirement System (SERS)

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the District's surcharge obligation was \$13,720.

The surcharge added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$17,989 for fiscal year 2018. Of this amount, \$14,143 is reported as pension and postemployment benefits payable.

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

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

Plan Description - State Teachers Retirement System (STRS)

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

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

Net OPEB Liability

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.02449716%	0.02426595%	
Proportion of the net OPEB liability current measurement date	<u>0.02380390%</u>	<u>0.02385662%</u>	
Change in proportionate share	<u>-0.00069326%</u>	<u>-0.00040933%</u>	
Proportionate share of the net OPEB liability	\$ 638,834	\$ 930,797	\$ 1,569,631
OPEB expense	\$ 31,995	\$ (287,156)	\$ (255,161)

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

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

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ -	\$ 53,732	\$ 53,732
District contributions subsequent to the measurement date	<u>17,989</u>	<u>-</u>	<u>17,989</u>
Total deferred outflows of resources	<u>\$ 17,989</u>	<u>\$ 53,732</u>	<u>\$ 71,721</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 1,687	\$ 39,785	\$ 41,472
Changes of assumptions	60,622	74,979	135,601
Difference between District contributions and proportionate share of contributions/ change in proportionate share	<u>16,906</u>	<u>18,764</u>	<u>35,670</u>
Total deferred inflows of resources	<u>\$ 79,215</u>	<u>\$ 133,528</u>	<u>\$ 212,743</u>

\$17,989 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2019	\$ (28,512)	\$ (16,614)	\$ (45,126)
2020	(28,512)	(16,614)	(45,126)
2021	(21,770)	(16,614)	(38,384)
2022	(421)	(16,614)	(17,035)
2023	-	(6,669)	(6,669)
Thereafter	<u>-</u>	<u>(6,671)</u>	<u>(6,671)</u>
Total	<u>\$ (79,215)</u>	<u>\$ (79,796)</u>	<u>\$ (159,011)</u>

Actuarial Assumptions - SERS

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

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

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

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

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.56 percent
Prior measurement date	2.92 percent
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.63 percent
Prior measurement date	2.98 percent
Medical trend assumption:	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

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

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

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NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
District's proportionate share of the net OPEB liability	\$ 771,474	\$ 638,834	\$ 533,750

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
District's proportionate share of the net OPEB liability	\$ 518,366	\$ 638,834	\$ 798,276

Actuarial Assumptions - STRS

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

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Payroll increases	3 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended discount rate of return	4.13 percent
Health care cost trends	6 to 11 percent initial, 4.5 percent ultimate

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

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

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

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

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

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

NOTE 14 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
District's proportionate share of the net OPEB liability	\$ 1,249,580	\$ 930,797	\$ 678,854
	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 646,678	\$ 930,797	\$ 1,304,731

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

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP 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 major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to an assignment of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 252,294
Net adjustment for revenue accruals	(22,683)
Net adjustment for expenditure accruals	(2,008)
Net adjustment for other sources/uses	(92,965)
Fund budgeted elsewhere **	76,377
Adjustment for encumbrances	436,008
GAAP basis	\$ 647,023

** The unclaimed monies fund, public school support fund and termination benefits fund are legally budgeted in separate special revenue funds, but are considered part of the general fund on a GAAP basis.

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

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is not a party to legal proceedings.

C. Foundation Funding

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. The final adjustment was not material and is not reflected in the accompanying financial statements.

NOTE 17 - STATUTORY RESERVES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2017	\$ -
Current year set-aside requirement	122,087
Current year qualifying expenditures	(176,721)
Current year offsets	<u>(138,096)</u>
Total	<u>\$ (192,730)</u>
Balance carried forward to fiscal year 2019	<u>\$ -</u>
Set-aside balance June 30, 2018	<u>\$ -</u>

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

NOTE 17 - STATUTORY RESERVES - (Continued)

During fiscal year 2014, the District issued \$17,152,489 in classroom facilities construction bonds. These proceeds may be used to reduce capital acquisition to zero for future years. The amount presented for prior year offset from bond proceeds is limited to an amount needed to reduce the reserve for capital improvement to \$0. The District is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods, which was \$17,152,489 at June 30, 2018.

NOTE 18 - OTHER COMMITMENTS

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

<u>Funds</u>	<u>Year-End Encumbrances</u>
General fund	\$ 338,300
Other governmental	<u>49,621</u>
Total	<u>\$ 387,921</u>

REQUIRED SUPPLEMENTARY INFORMATION

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.02362100%	0.02420210%	0.02486040%	0.02545000%	0.02545000%
District's proportionate share of the net pension liability	\$ 1,411,303	\$ 1,771,370	\$ 1,418,558	\$ 1,288,010	\$ 1,513,430
District's covered payroll	\$ 812,543	\$ 709,186	\$ 615,410	\$ 876,667	\$ 808,129
District's proportionate share of the net pension liability as a percentage of its covered payroll	173.69%	249.78%	230.51%	146.92%	187.28%
Plan fiduciary net position as a percentage of the total pension liability	69.50%	62.98%	69.16%	71.70%	65.52%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.02385662%	0.02426595%	0.02376020%	0.02445100%	0.02445100%
District's proportionate share of the net pension liability	\$ 5,667,191	\$ 8,122,545	\$ 6,566,626	\$ 5,947,330	\$ 7,084,420
District's covered payroll	\$ 2,638,314	\$ 2,253,436	\$ 2,437,379	\$ 2,453,669	\$ 2,879,538
District's proportionate share of the net pension liability as a percentage of its covered payroll	214.80%	360.45%	269.41%	242.39%	246.03%
Plan fiduciary net position as a percentage of the total pension liability	75.30%	66.80%	72.10%	74.70%	69.30%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 115,258	\$ 113,756	\$ 99,286	\$ 81,111
Contributions in relation to the contractually required contribution	<u>(115,258)</u>	<u>(113,756)</u>	<u>(99,286)</u>	<u>(81,111)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 853,763	\$ 812,543	\$ 709,186	\$ 615,410
Contributions as a percentage of covered payroll	13.50%	14.00%	14.00%	13.18%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 121,506	\$ 111,845	\$ 112,460	\$ 100,681	\$ 99,710	\$ 66,280
<u>(121,506)</u>	<u>(111,845)</u>	<u>(112,460)</u>	<u>(100,681)</u>	<u>(99,710)</u>	<u>(66,280)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 876,667	\$ 808,129	\$ 836,134	\$ 800,963	\$ 736,411	\$ 673,577
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 392,585	\$ 369,364	\$ 315,481	\$ 341,233
Contributions in relation to the contractually required contribution	<u>(392,585)</u>	<u>(369,364)</u>	<u>(315,481)</u>	<u>(341,233)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 2,804,179	\$ 2,638,314	\$ 2,253,436	\$ 2,437,379
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 318,977	\$ 374,340	\$ 393,729	\$ 397,409	\$ 386,226	\$ 407,157
<u>(318,977)</u>	<u>(374,340)</u>	<u>(393,729)</u>	<u>(397,409)</u>	<u>(386,226)</u>	<u>(407,157)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,453,669	\$ 2,879,538	\$ 3,028,685	\$ 3,056,992	\$ 2,970,969	\$ 3,131,977
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TWO FISCAL YEARS

	2018	2017
District's proportion of the net OPEB liability	0.02380390%	0.02449716%
District's proportionate share of the net OPEB liability	\$ 638,834	\$ 698,260
District's covered payroll	\$ 812,543	\$ 709,186
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	78.62%	98.46%
Plan fiduciary net position as a percentage of the total OPEB liability	12.46%	11.49%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TWO FISCAL YEARS

	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability	0.02385662%	0.02426595%
District's proportionate share of the net OPEB liability	\$ 930,797	\$ 1,297,749
District's covered payroll	\$ 2,638,314	\$ 2,253,436
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	35.28%	57.59%
Plan fiduciary net position as a percentage of the total OPEB liability	47.10%	37.30%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT OPEB CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 17,989	\$ 12,206	\$ 12,271	\$ 18,258
Contributions in relation to the contractually required contribution	<u>(17,989)</u>	<u>(12,206)</u>	<u>(12,271)</u>	<u>(18,258)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 853,763	\$ 812,543	\$ 709,186	\$ 615,410
Contributions as a percentage of covered payroll	2.11%	1.50%	1.73%	2.97%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 14,052	\$ 15,049	\$ 20,817	\$ 11,454	\$ 18,211	\$ 28,113
<u>(14,052)</u>	<u>(15,049)</u>	<u>(20,817)</u>	<u>(11,454)</u>	<u>(18,211)</u>	<u>(28,113)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 876,667	\$ 808,129	\$ 836,134	\$ 800,963	\$ 736,411	\$ 673,577
1.60%	1.86%	2.49%	1.43%	2.47%	4.17%

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT OPEB CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

	LAST TEN FISCAL YEARS			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 2,804,179	\$ 2,638,314	\$ 2,253,436	\$ 2,437,379
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 25,935	\$ 28,795	\$ 30,287	\$ 30,570	\$ 29,710	\$ 31,320
<u>(25,935)</u>	<u>(28,795)</u>	<u>(30,287)</u>	<u>(30,570)</u>	<u>(29,710)</u>	<u>(31,320)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,453,669	\$ 2,879,538	\$ 3,028,685	\$ 3,056,992	\$ 2,970,969	\$ 3,131,977
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

PENSION

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the change in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, 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, (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 and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2018.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, STRS decreased the Cost of Living Adjustment (COLA) to zero.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumption affected the total pension liability since the prior measurement date: (a) the long term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation (e) the healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016 and (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience.

(Continued)

**BROWN LOCAL SCHOOL DISTRICT
CARROLL COUNTY, OHIO**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2017-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) 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 the following: 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, (g) mortality among disabled members was updated to the following: 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.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) the percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

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OHIO AUDITOR OF STATE KEITH FABER



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

Brown Local School District
Carroll County
3242 Coral Road NW
Malvern, Ohio 44644

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Brown Local School District, Carroll County, (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated May 8, 2019, wherein we noted the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Keith Faber
Auditor of State

Columbus, Ohio

May 8, 2019

OHIO AUDITOR OF STATE KEITH FABER



BROWN LOCAL SCHOOL DISTRICT

CARROLL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 11, 2019**