

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2018*

OHIO AUDITOR OF STATE KEITH FABER



Board of Education
Margaretta Local School District
305 South Washington Street
Castalia, Ohio 44824

We have reviewed the *Independent Auditor's Report* of the Margaretta Local School District, Erie County, prepared by Julian & Grube, Inc., for the audit period July 1, 2017 through June 30, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Keith Faber
Auditor of State
Columbus, Ohio

February 21, 2019

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**MARAGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Margaretta Local School District
Erie County
305 South Washington Street
Castalia, Ohio 44824

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 the Margaretta Local School District, Erie County, Ohio, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Margaretta Local School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with 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 Margaretta Local School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Margaretta Local School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Margaretta Local School District, Erie County, Ohio, as of June 30, 2018, and the respective changes in financial position thereof and the budgetary comparison for the General fund thereof for the fiscal 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 fiscal year 2018, the Margaretta Local School District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

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 postemployment benefit liabilities and pension and other postemployment 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 December 13, 2018, on our consideration of the Margaretta Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Margaretta Local School District's internal control over financial reporting and compliance.

Julian & Grube, Inc.

Julian & Grube, Inc.
December 13, 2018

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

The management's discussion and analysis of Margarett 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 fiscal year 2018 are as follows:

- Net position of governmental activities increased \$5,340,463 which represents a 32.45% increase from the 2017 restated net position.
- General revenues accounted for \$12,396,892 in revenue or 72.13% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$4,789,476 or 27.87% of total revenues of \$17,186,368.
- The District had \$11,845,905 in expenses related to governmental activities; only \$4,789,476 of these expenses was offset by program specific charges for services and sales, and grants and contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$12,396,892 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and the permanent improvement fund. The general fund had \$15,586,383 in revenues and other financing resources and \$16,625,393 in expenditures and other financing uses. During fiscal year 2018, the general fund's fund balance decreased from \$2,089,134 to \$1,050,124.
- The permanent improvement fund had \$1,141,405 in revenues and other financing resources and \$515,837 in expenditures. During fiscal year 2018, the permanent improvement fund's fund balance increased from \$103,159 to \$728,727.

Using the Basic Financial Statements (BFS)

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 is by far the most significant fund. The general fund and the permanent improvement fund are the only governmental funds reported as major funds.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

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 fiscal year 2018?" The statement of net position and the statement of activities answer this question. These statements include *all assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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, pupil transportation, extracurricular activities, and food service operations.

Reporting the District's Most Significant Funds

Fund Financial Statements

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 the permanent improvement 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* than 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.

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. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

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.

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 liability and net OPEB liability.

The District as a Whole

The statement of net position provides the perspective of the District as a whole. The table on the next page 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.

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**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

	Net Position	
	Governmental Activities 2018	Restated Governmental Activities 2017
<u>Assets</u>		
Current and other assets	\$ 9,002,992	\$ 9,616,815
Capital assets, net	<u>7,205,728</u>	<u>7,211,023</u>
Total assets	<u>16,208,720</u>	<u>16,827,838</u>
<u>Deferred Outflows of Resources</u>		
Pensions	6,030,667	4,676,882
OPEB	<u>391,981</u>	<u>45,018</u>
Total deferred outflows of resources	<u>6,422,648</u>	<u>4,721,900</u>
<u>Liabilities</u>		
Current liabilities	1,629,888	1,650,856
Long-term liabilities:		
Due within one year	530,640	561,641
Due in more than one year:		
Net pension liability	17,209,468	22,243,693
Net OPEB liability	4,234,811	4,842,173
Other amounts	<u>3,951,946</u>	<u>3,540,578</u>
Total liabilities	<u>27,556,753</u>	<u>32,838,941</u>
<u>Deferred Inflows of Resources</u>		
Property taxes levied for next year	5,194,781	5,167,598
Pensions	532,775	2,052
OPEB	<u>465,449</u>	<u>-</u>
Total deferred inflows of resources	<u>6,193,005</u>	<u>5,169,650</u>
<u>Net Position</u>		
Net investment in capital assets	4,290,408	3,991,023
Restricted	428,788	514,136
Unrestricted (deficit)	<u>(15,837,586)</u>	<u>(20,964,012)</u>
Total net position (deficit)	<u>\$ (11,118,390)</u>	<u>\$ (16,458,853)</u>

The net pension liability (NPL) is the largest single liability 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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

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.

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 (\$11,661,698) to (\$16,458,853).

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

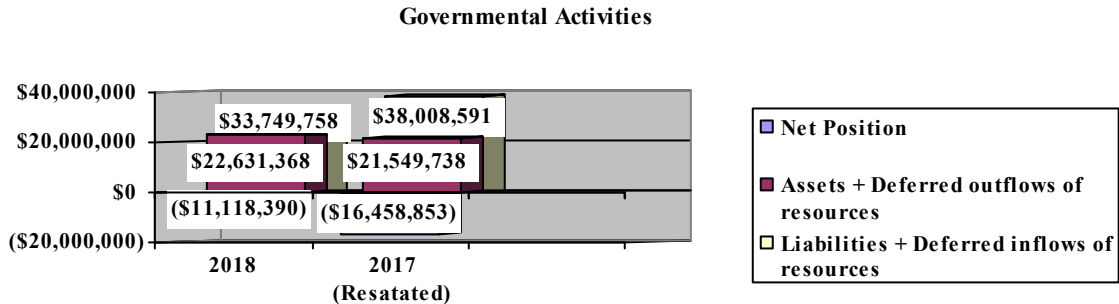
Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018, the District's liabilities plus deferred inflows of resources exceeded assets plus deferred outflows of resources by \$11,118,390.

As the previous table illustrates, the most significant changes in net position were related to the District's net pension liability and net OPEB liability and deferred inflows/outflows of resources related to pensions and other post-employment benefits. See Note 14 and Note 15 in the notes to the basic financial statements for additional information regarding these components of net position.

At year-end, capital assets represented 44.46% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Net investment in capital assets at June 30, 2018, was \$4,290,408. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net position, \$428,788, 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 \$15,837,586.

The graph below illustrates the governmental activities assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, 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.



**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

The table below shows the change in net position for fiscal years 2018 and 2017. The net position at June 30, 2017 has been restated as described in Note 3.A.

	Change in Net Position	
	Governmental Activities <u>2018</u>	Restated Governmental Activities <u>2017</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 3,532,929	\$ 3,855,826
Operating grants and contributions	1,256,547	1,536,627
General revenues:		
Property taxes	5,984,030	5,454,163
Grants and entitlements	5,754,476	6,124,603
Investment earnings	13,914	9,343
Insurance settlement	198,756	-
Other	<u>445,716</u>	<u>345,050</u>
Total revenues	<u>17,186,368</u>	<u>17,325,612</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	3,173,923	5,947,922
Special	1,555,811	2,434,555
Vocational	233,709	441,840
Other	1,336,234	1,271,113
Support services:		
Pupil	605,979	1,096,799
Instructional staff	287,233	450,815
Board of education	317,833	344,541
Administration	738,132	1,315,614
Fiscal	249,897	481,810
Operations and maintenance	1,510,478	1,379,332
Pupil transportation	805,530	1,311,014
Central	151,252	150,168
Operation of non-instructional services:		
Other non-instructional services	116,270	134,733
Food service operations	408,029	592,609
Extracurricular activities	242,469	587,740
Interest and fiscal charges	<u>113,126</u>	<u>110,940</u>
Total expenses	<u>11,845,905</u>	<u>18,051,545</u>
Change in net position	5,340,463	(725,933)
Net position (deficit) at beginning of year	<u>(16,458,853)</u>	<u>N/A</u>
Net position (deficit) at end of year	<u>\$ (11,118,390)</u>	<u>\$ (16,458,853)</u>

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

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 \$45,018 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 \$429,681. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	\$ 11,845,905
Negative OPEB expense under GASB 75	429,681
2018 contractually required contributions	<u>59,195</u>
Adjusted 2018 program expenses	12,334,781
Total 2017 program expenses under GASB 45	<u>18,051,545</u>
Decrease in program expenses not related to OPEB	<u>\$ (5,716,764)</u>

Governmental Activities

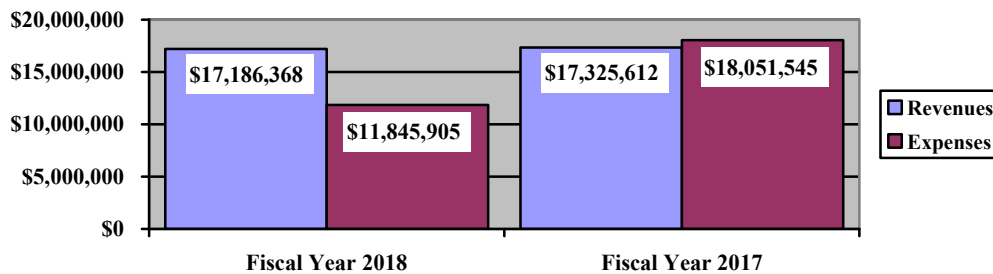
Net position of the District's governmental activities increased \$5,340,463. Total governmental expenses of \$11,845,905 were offset by program revenues of \$4,789,476 and general revenues of \$12,396,892. Program revenues supported 40.43% of the total governmental expenses.

Total revenues decreased \$139,244 or 0.80%. The decrease in revenue is mostly due to a decrease in charges for services and sales, and operating grants and contributions. The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These two revenue sources represent 68.30% of total governmental revenue

Expenses of the governmental activities decreased \$6,205,640 or 34.38%. 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 (\$4,582,200) in pension expense and (\$429,681) in OPEB expense mainly due to these benefit changes.

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

Governmental Activities - Revenues and Expenses



**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

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.

Governmental Activities				
	Total Cost of Services <u>2018</u>	Net Cost of Services <u>2018</u>	Total Cost of Services <u>2017</u>	Net Cost of Services <u>2017</u>
Program expenses				
Instruction:				
Regular	\$ 3,173,923	\$ 1,109,703	\$ 5,947,922	\$ 3,458,223
Special	1,555,811	277,385	2,434,555	1,041,944
Vocational	233,709	188,810	441,840	398,344
Other	1,336,234	1,336,234	1,271,113	1,271,113
Support services:				
Pupil	605,979	605,979	1,096,799	1,096,799
Instructional staff	287,233	282,888	450,815	450,815
Board of education	317,833	317,833	344,541	344,541
Administration	738,132	738,132	1,315,614	1,315,614
Fiscal	249,897	249,897	481,810	481,810
Operations and maintenance	1,510,478	1,048,572	1,379,332	871,751
Pupil transportation	805,530	759,794	1,311,014	1,255,667
Central	151,252	147,652	150,168	146,568
Operation of non-instructional services:				
Other non-instructional services	116,270	1,951	134,733	36,388
Food service operations	408,029	(126,429)	592,609	58,349
Extracurricular activities	242,469	4,902	587,740	320,226
Interest and fiscal charges	113,126	113,126	110,940	110,940
Total expenses	<u>\$ 11,845,905</u>	<u>\$ 7,056,429</u>	<u>\$ 18,051,545</u>	<u>\$ 12,659,092</u>

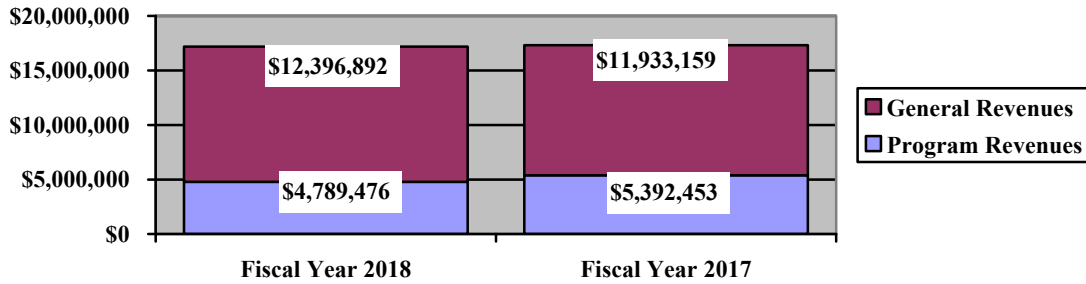
The dependence upon tax and other general revenues for governmental activities is apparent, 46.23% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 59.57%. The District's taxpayers and grants and entitlements not restricted to specific programs, as a whole, are by far the primary support for District's students.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

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

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds reported a combined fund balance of \$1,904,477, which is less than last year's balance of \$2,436,549. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2018 and June 30, 2017.

	Fund Balance <u>June 30, 2018</u>	Fund Balance <u>June 30, 2017</u>	Increase <u>(Decrease)</u>
General	\$ 1,050,124	\$ 2,089,134	\$ (1,039,010)
Permanent Improvemnet	728,727	103,159	625,568
Other Governmental	<u>125,626</u>	<u>244,256</u>	<u>(118,630)</u>
Total	<u>\$ 1,904,477</u>	<u>\$ 2,436,549</u>	<u>\$ (532,072)</u>

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

General Fund

The District's general fund balance decreased \$1,039,010 in fiscal year 2018.

The table that follows assists in illustrating the financial activities and change in fund balance of the general fund.

	<u>2018</u> <u>Amount</u>	<u>2017</u> <u>Amount</u>	<u>Change</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>				
Property taxes	\$ 5,837,979	\$ 5,353,457	\$ 484,522	9.05 %
Tuition	1,772,208	1,757,046	15,162	0.86 %
Earnings on investments	8,169	9,962	(1,793)	(18.00) %
Rental income	460,235	496,908	(36,673)	(7.38) %
Contract services	590,795	909,579	(318,784)	(35.05) %
Other revenues	613,053	518,056	94,997	18.34 %
Intergovernmental	<u>6,300,544</u>	<u>6,594,461</u>	<u>(293,917)</u>	(4.46) %
Total	<u>\$ 15,582,983</u>	<u>\$ 15,639,469</u>	<u>\$ (56,486)</u>	(0.36) %
<u>Expenditures</u>				
Instruction	\$ 9,252,483	\$ 8,838,814	\$ 413,669	4.68 %
Support services	6,322,105	6,258,622	63,483	1.01 %
Operation of non-instructional services	129,409	131,788	(2,379)	(1.81) %
Extracurricular activities	310,334	283,115	27,219	9.61 %
Debt service	<u>566,404</u>	<u>555,204</u>	<u>11,200</u>	2.02 %
Total	<u>\$ 16,580,735</u>	<u>\$ 16,067,543</u>	<u>\$ 513,192</u>	3.19 %

Total revenues of the general fund decreased \$56,486 or 0.36%. The decrease in contract services is primarily due to the decrease in instructional and support services provided to the District-sponsored community school. The decrease in intergovernmental revenue is primarily due to a decrease in grants received during the year. The only significant increase in the general fund revenues was in property taxes. This was primarily due to fluctuations in the amount of tax collected and available for advance at fiscal year-end by the County Auditor. Tax advances available are recorded as revenue under GAAP and can vary depending upon when the County Auditor distributes tax bills.

Total expenditures of the general fund increased \$513,192 or 3.19%. This is partially due to increase in salaries and fringe benefits, particularly for the District's instructional staff. Expenses also increased due to an increase in extracurricular activity expenses. In addition, debt service payments increased due to payments made on the District's lease-purchase agreement. These additional debt service payments are partially financed with revenues from the District's contract with the Townsend Community School.

Permanent Improvement Fund

The permanent improvement fund had \$1,141,405 in revenues and other financing sources and \$515,837 in expenditures. During fiscal 2018, the permanent improvement fund's fund balance increased \$625,568 from a fund balance of \$103,159 to \$728,727. This fund is to be used to rebuild the high school stadium.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

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.

For the general fund, original and final budgeted revenues and other financing sources were \$15,091,184. Actual revenues and other financing sources for fiscal year 2018 were \$15,574,560. This represents a \$481,376 (3.20%) increase from the final budget.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$16,488,376 were increased to \$16,971,676 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2018 totaled \$16,634,480, which is \$337,196 (1.99%) lower than the final budget. The variance between the final budget and actual is primarily a result of the District budgeting for a "worst case scenario" to account for unexpected increases in the actual costs of its programs.

Capital Assets

At the end of fiscal year 2018, the District had \$7,205,728 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows capital assets, net of accumulated depreciation, at June 30, 2018 and June 30, 2017:

	Capital Assets at June 30	
	(Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
Land	\$ 182,754	\$ 106,152
Land improvements	404,118	207,201
Buildings and improvements	5,797,324	6,019,809
Furniture and equipment	350,418	308,092
Vehicles	<u>471,114</u>	<u>569,769</u>
Total	<u>\$ 7,205,728</u>	<u>\$ 7,211,023</u>

Capital asset additions in fiscal year 2018 were \$409,670 and disposals, net of accumulated depreciation, totaled \$24,591. Depreciation expense for the year amounted to \$390,374.

See Note 8 in the notes to the basic financial statements for additional information on the District's capital assets.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

Debt Administration

At June 30, 2018, the District had \$3,518,000 in lease-purchase obligations and tax anticipation notes outstanding. Of this amount, \$467,000 is due within one year and \$3,051,000 is due in more than one year. There was \$750,000 in tax anticipation notes entered into during the year, and principal payments amounted to \$452,000. The following table summarizes the debt outstanding at June 30, 2018 and June 30, 2017.

Outstanding Debt, at Year End

	Governmental Activities 2018	Governmental Activities 2017
Lease-purchase agreement	\$ 2,768,000	\$ 3,220,000
Tax Anticipation Note	750,000	-
Total	\$ 3,518,000	\$ 3,220,000

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

Current Financial Related Activities

The District experienced a fiscal year where General Fund expenditures exceed revenues in fiscal year 2018. This is the second time since fiscal year 2010 that this phenomenon has occurred. Six consecutive years of positive cash flow had come to an end in fiscal year 2017. The general fund's cash balance was reduced by \$1,019,107 during the fiscal year. The General Fund retained a cash balance of \$1,454,050 at the end of the fiscal year.

On a cash basis, operating revenues decreased by 0.1% when compared with fiscal year 2017 revenues. Local operating revenues grew by 4.5% from \$8,913,173 to \$9,312,457. The primary sources of the local operating revenues were Open Enrollment transfers from other School Districts and contributions received from Townsend Community School. The contributions from Townsend included payments made toward the Lease-Purchase debt services agreement. State Operating revenue decreased by 6.3% from \$6,667,002 to \$6,262,103.

Operating expenditures grew by 5.3% in fiscal year 2018. Other areas of operating expenditures that experienced increases were salaries by 6.8% and fringe benefits by 7.8%. Salaries and fringe benefit cost increases can be attributed to, in part, due to the effects of the ratification of the Teachers Union contract and corresponding raises for non-bargaining personnel, which occurred during the fiscal year. Fringe Benefits rose proportionate to increases in salaries and to inflationary costs related to the health insurance. The health insurance premiums increased by 5% for fiscal year 2018 as compared with fiscal year 2017. In addition, another area of operating expenditures that experienced increases were supplies and materials by 26.1%, due to several grade-level textbook purchases. The debt service payments increased by \$11,201 due to the additional financing of the Townsend Community Learning Center Lease-Purchase arrangement.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

Townsend Community School continues to grow. Townsend has enrolled students from school districts across the state. Townsend enrollment at the end of the 2017-18 school year exceeded 1,150 students and approximately 253 students graduated in the 2017-18 school year. Margaretta received and/or accrued \$43,083 for facility lease and building maintenance payments, \$381,489 in Lease-Purchase financing payments, \$301,493 in shared services in the 2017-18 school year. In addition, Margaretta accrued \$202,042 for Sponsorship fee, statutory 3% of Townsend's State determined Enrollment funding. In addition to the reimbursement of shared services and rent payments, Townsend's new Student Learning Center has a state-of-the-art computer lab and two state-of-the-art science labs that are being made available for the Margaretta High School students to use at no additional cost.

State foundation unrestricted grant in aid funding decreased by \$299,791 to a total of \$4,391,811. This was a 6.4% decrease in State aid. One of the most important financial portions of the state's budget is the treatment of the tangible personal property tax reimbursement funding source. In June 2015, the General Assembly adopted a new budget bill (House Bill 64) that restored the phase-out of the Tangible Personal Property Tax Loss Reimbursement that was to be totally phased out at a rate not exceed 1.75% operating revenue. The amount of reimbursement decreased by \$137,331 in fiscal year 2018 compared to fiscal year 2017. The effect of the decrease in State Foundation unrestricted grant funds and the loss in Tangible Personal Property Tax Loss Reimbursement was a decrease of \$437,122 resulting from House Bill 64. The General Assembly adopted a new Budget Bill in June 2018 for State fiscal years 2017-18 and 2018-19. Within this bill, the phase out of Tangible Personal Property Tax Loss will continue and the State Foundation funding is projected to decline over each of these two fiscal years. This will adversely affect the financial position of the District's General Fund over the next two fiscal years. Management will be challenged to solve the problem by reducing expenditures.

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 Diane Keegan, Treasurer, Margaretta Local School District, 305 S. Washington Street, Castalia, Ohio 44824.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 2,346,651
Receivables:	
Property taxes	6,183,682
Accounts	144,760
Accrued interest	6,536
Intergovernmental	312,525
Prepayments	4,838
Materials and supplies inventory	625
Inventory held for resale	3,375
Capital assets:	
Nondepreciable capital assets	182,754
Depreciable capital assets, net	7,022,974
Capital assets, net	<u>7,205,728</u>
Total assets	<u>16,208,720</u>
 Deferred outflows of resources:	
Pension	6,030,667
OPEB	391,981
Total deferred outflows of resources	<u>6,422,648</u>
 Liabilities:	
Accounts payable	98,642
Accrued wages and benefits payable	1,167,090
Intergovernmental payable	98,865
Pension and postemployment benefits payable	256,688
Accrued interest payable	8,603
Long-term liabilities:	
Due within one year	530,640
Due in more than one year:	
Net pension liability	17,209,468
Other amounts due in more than one year	3,951,946
Net OPEB liability	4,234,811
Total liabilities	<u>27,556,753</u>
 Deferred inflows of resources:	
Property taxes levied for the next fiscal year	5,194,781
Pension	532,775
OPEB	465,449
Total deferred inflows of resources	<u>6,193,005</u>
 Net position:	
Net investment in capital assets	4,290,408
Restricted for:	
Capital projects	131,942
Locally funded programs	164,883
State funded programs	3,044
Federally funded programs	79,148
Student activities	49,771
Unrestricted (deficit)	(15,837,586)
Total net position (deficit)	<u>\$ (11,118,390)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 3,173,923	\$ 2,022,161	\$ 42,059	\$ (1,109,703)
Special	1,555,811	403,245	875,181	(277,385)
Vocational	233,709	-	44,899	(188,810)
Other	1,336,234	-	-	(1,336,234)
Support services:				
Pupil.	605,979	-	-	(605,979)
Instructional staff	287,233	-	4,345	(282,888)
Board of education	317,833	-	-	(317,833)
Administration.	738,132	-	-	(738,132)
Fiscal.	249,897	-	-	(249,897)
Operations and maintenance	1,510,478	460,235	1,671	(1,048,572)
Pupil transportation.	805,530	-	45,736	(759,794)
Central	151,252	-	3,600	(147,652)
Operation of non-instructional services:				
Other non-instructional services	116,270	114,319	-	(1,951)
Food service operations	408,029	295,920	238,538	126,429
Extracurricular activities.	242,469	237,049	518	(4,902)
Interest and fiscal charges	113,126	-	-	(113,126)
Total governmental activities	\$ 11,845,905	\$ 3,532,929	\$ 1,256,547	(7,056,429)

General revenues:

Property taxes levied for:	
General purposes	5,825,339
Capital outlay.	158,691
Grants and entitlements not restricted to specific programs	5,754,476
Investment earnings	13,914
Insurance settlement	198,756
Miscellaneous	445,716
Total general revenues	12,396,892
Change in net position	5,340,463
Net position (deficit) at beginning of year (restated)	(16,458,853)
Net position (deficit) at end of year.	\$ (11,118,390)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	<u>General</u>	<u>Permanent Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents.	\$ 1,494,300	\$ 602,680	\$ 249,671	\$ 2,346,651
Receivables:				
Property taxes.	6,015,558	168,124	-	6,183,682
Accounts	-	144,760	-	144,760
Accrued interest	6,536	-	-	6,536
Interfund loans	7,884	-	-	7,884
Intergovernmental.	248,815	-	63,710	312,525
Prepayments.	4,542	-	296	4,838
Materials and supplies inventory	-	-	625	625
Inventory held for resale.	-	-	3,375	3,375
Due from other funds	1,107	-	-	1,107
Total assets	<u>\$ 7,778,742</u>	<u>\$ 915,564</u>	<u>\$ 317,677</u>	<u>\$ 9,011,983</u>
Liabilities:				
Accounts payable	\$ 48,603	\$ 40,975	\$ 9,064	\$ 98,642
Accrued wages and benefits payable	1,076,427	-	90,663	1,167,090
Intergovernmental payable	97,860	-	1,005	98,865
Pension and postemployment benefits payable	238,070	-	18,618	256,688
Interfund loans payable	-	-	7,884	7,884
Due to other funds	-	-	1,107	1,107
Total liabilities.	<u>1,460,960</u>	<u>40,975</u>	<u>128,341</u>	<u>1,630,276</u>
Deferred inflows of resources:				
Property taxes levied for the next fiscal year.	5,053,892	140,889	-	5,194,781
Delinquent property tax revenue not available.	177,313	4,973	-	182,286
Intergovernmental revenue not available.	30,316	-	63,710	94,026
Accrued interest not available	6,137	-	-	6,137
Total deferred inflows of resources	<u>5,267,658</u>	<u>145,862</u>	<u>63,710</u>	<u>5,477,230</u>
Fund balances:				
Nonspendable:				
Materials and supplies inventory.	-	-	625	625
Prepayments	4,542	-	296	4,838
Restricted:				
Capital improvements	-	728,727	922	729,649
Other purposes.	-	-	176,613	176,613
Extracurricular activities.	-	-	49,771	49,771
Assigned:				
Student instruction	39,812	-	-	39,812
Student and staff support.	41,396	-	-	41,396
Subsequent year's appropriations	947,320	-	-	947,320
Unassigned (deficit)	17,054	-	(102,601)	(85,547)
Total fund balances	<u>1,050,124</u>	<u>728,727</u>	<u>125,626</u>	<u>1,904,477</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 7,778,742</u>	<u>\$ 915,564</u>	<u>\$ 317,677</u>	<u>\$ 9,011,983</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

Total governmental fund balances		\$	1,904,477
<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.			7,205,728
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Property taxes receivable	\$	182,286	
Accrued interest receivable		6,137	
Intergovernmental receivable		94,026	
Total		282,449	282,449
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(8,603)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:			
Deferred outflows of resources - pension		6,030,667	
Deferred inflows of resources - pension		(532,775)	
Net pension liability		(17,209,468)	
Total		(11,711,576)	(11,711,576)
The net OPEB liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:			
Deferred outflows of resources - OPEB		391,981	
Deferred inflows of resources - OPEB		(465,449)	
Net OPEB liability		(4,234,811)	
Total		(4,308,279)	(4,308,279)
Long-term liabilities, including lease-purchases, are not due and payable in the current period and therefore are not reported in the funds.			
Lease-purchase obligations		(2,768,000)	
Compensated absences		(964,586)	
Notes payable		(750,000)	
Total		(4,482,586)	(4,482,586)
Net position (deficit) of governmental activities		\$	(11,118,390)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

	General	Permanent Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Property taxes	\$ 5,837,979	\$ 159,069	\$ -	\$ 5,997,048
Tuition	1,772,208	-	-	1,772,208
Earnings on investments	8,169	-	-	8,169
Charges for services	-	-	295,920	295,920
Extracurricular	114,319	-	234,586	348,905
Classroom materials and fees	64,864	-	-	64,864
Rental income	460,235	-	-	460,235
Contributions and donations	5,320	-	14,779	20,099
Contract services	590,795	-	-	590,795
Other local revenues	428,550	11,846	27,759	468,155
Intergovernmental - state	6,263,654	21,734	13,635	6,299,023
Intergovernmental - federal	36,890	-	672,937	709,827
Total revenues	15,582,983	192,649	1,259,616	17,035,248
Expenditures:				
Current:				
Instruction:				
Regular	5,505,790	38,739	125,124	5,669,653
Special	2,026,118	-	439,705	2,465,823
Vocational	384,341	-	-	384,341
Other	1,336,234	-	-	1,336,234
Support services:				
Pupil	1,027,702	-	-	1,027,702
Instructional staff	428,300	-	4,571	432,871
Board of education	318,984	7,974	-	326,958
Administration	1,240,513	-	-	1,240,513
Fiscal	424,279	2,823	-	427,102
Operations and maintenance	1,470,742	-	1,322	1,472,064
Pupil transportation	1,185,908	-	-	1,185,908
Central	225,677	-	3,600	229,277
Operation of non-instructional services:				
Other non-instructional services	129,409	-	-	129,409
Food service operations	-	-	568,129	568,129
Extracurricular activities	310,334	-	271,505	581,839
Facilities acquisition and construction	-	466,301	7,544	473,845
Debt service:				
Principal retirement	452,000	-	-	452,000
Interest and fiscal charges	114,404	-	-	114,404
Total expenditures	16,580,735	515,837	1,421,500	18,518,072
Excess (deficiency) of revenues over (under) expenditures	(997,752)	(323,188)	(161,884)	(1,482,824)
Other financing sources (uses):				
Sale of assets	3,400	-	-	3,400
Sale of notes	-	750,000	-	750,000
Transfers in	-	-	44,658	44,658
Transfers (out)	(44,658)	-	-	(44,658)
Insurance proceeds	-	198,756	-	198,756
Total other financing sources (uses)	(41,258)	948,756	44,658	952,156
Net change in fund balances	(1,039,010)	625,568	(117,226)	(530,668)
Fund balances at beginning of year	2,089,134	103,159	244,256	2,436,549
Decrease in reserve for inventory	-	-	(1,404)	(1,404)
Fund balances at end of year	\$ 1,050,124	\$ 728,727	\$ 125,626	\$ 1,904,477

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE 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	\$	(530,668)
<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	\$ 409,670	
Current year depreciation	(390,374)	
Total		19,296
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		
		(24,591)
Governmental funds report expenditures for inventory when purchased. However, in the statement of activities, they are reported as an expense when consumed.		
		(1,404)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	(13,018)	
Earnings on investments	5,745	
Intergovernmental	(40,363)	
Total		(47,636)
Repayment of lease-purchase principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		452,000
The issuance of notes is recorded as an other financing source in governmental funds; however, it increases liabilities on the statement of net position.		
		(750,000)
In the statement of activities, interest is accrued, whereas in governmental funds, an interest expenditure is reported when due.		
		1,278
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		1,275,087
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		4,582,200
Contractually required OPEB contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		59,195
Except for amounts reported as deferred inflows/outflows, changes in the net OPEB liability are reported as pension expense in the statement of activities.		
		429,681
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.		
		(123,975)
Change in net position of governmental activities	\$	5,340,463

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE 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>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
Revenues:				
From local sources:				
Property taxes	\$ 5,721,328	\$ 5,721,328	\$ 5,794,445	\$ 73,117
Tuition	1,564,211	1,564,211	1,772,208	207,997
Earnings on investments	9,914	9,914	10,614	700
Classroom materials and fees	74,477	74,477	64,864	(9,613)
Rental income	429,567	429,567	493,979	64,412
Contract services	662,108	662,108	781,916	119,808
Other local revenues	317,332	317,332	392,931	75,599
Intergovernmental - state	6,276,767	6,276,767	6,225,213	(51,554)
Intergovernmental - federal	29,703	29,703	36,890	7,187
Total revenues	<u>15,085,407</u>	<u>15,085,407</u>	<u>15,573,060</u>	<u>487,653</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,566,698	5,598,598	5,514,492	84,106
Special	1,981,950	2,050,050	2,041,922	8,128
Vocational	397,592	401,592	387,752	13,840
Other	1,130,995	1,336,295	1,336,234	61
Support services:				
Pupil	1,101,006	1,114,606	1,034,536	80,070
Instructional staff	438,732	453,732	430,451	23,281
Board of education	343,696	369,396	328,953	40,443
Administration	1,228,679	1,245,179	1,272,367	(27,188)
Fiscal	447,272	453,072	442,494	10,578
Operations and maintenance	1,510,446	1,553,246	1,468,820	84,426
Pupil transportation	1,250,482	1,269,782	1,199,617	70,165
Central	131,710	138,610	226,853	(88,243)
Other non-instructional services	40,323	40,323	25,630	14,693
Extracurricular activities	317,223	330,623	313,297	17,326
Debt service:				
Principal	452,000	452,000	452,000	-
Interest and fiscal charges	114,572	114,572	114,404	168
Total expenditures	<u>16,453,376</u>	<u>16,921,676</u>	<u>16,589,822</u>	<u>331,854</u>
Excess of expenditures over revenues	<u>(1,367,969)</u>	<u>(1,836,269)</u>	<u>(1,016,762)</u>	<u>819,507</u>
Other financing sources (uses):				
Refund of prior year's expenditures	-	-	1,500	1,500
Transfers (out)	(25,000)	(50,000)	(44,658)	5,342
Advances in	5,777	5,777	-	(5,777)
Advances (out)	(10,000)	-	-	-
Total other financing sources (uses)	<u>(29,223)</u>	<u>(44,223)</u>	<u>(43,158)</u>	<u>1,065</u>
Net change in fund balance	(1,397,192)	(1,880,492)	(1,059,920)	820,572
Fund balance at beginning of year	2,221,118	2,221,118	2,221,118	-
Prior year encumbrances appropriated	252,039	252,039	252,039	-
Fund balance at end of year	\$ 1,075,965	\$ 592,665	\$ 1,413,237	\$ 820,572

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 282,637	\$ 46,919
Receivables:		
Accrued interest.	806	-
Total assets.	283,443	\$ 46,919
Liabilities:		
Accounts payable.	2,500	\$ 2,917
Due to students.	-	44,002
Total liabilities	2,500	\$ 46,919
Net position:		
Held in trust for scholarships.	280,943	
Total net position.	\$ 280,943	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 822
Gifts and contributions.	38,491
Total additions	39,313
Deductions:	
Scholarships awarded	31,095
Change in net position	8,218
Net position at beginning of year.	272,725
Net position at end of year	\$ 280,943

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Margarettta Local School District (“District”) operates under a locally-elected five-member Board form of government and provides educational services mandated by State and/or federal agencies. Located in Erie County, the District serves the Village of Castalia and surrounding townships.

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

The District currently operates 2 elementary schools and 1 high school. It employs 92 non-certified employees and 90 certified (including administrative) employees to provide services to approximately 1,072 students.

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).

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE 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 ORGANIZATIONS

Bay Area Council of Governments

The Bay Area Council of Governments (BACG) is a jointly governed organization. Members of the BACG consist of 26 school districts representing 7 counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood, and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through the council of governments are natural gas and insurance. The only cost to the District is an administrative charge if it participates in purchasing through the BACG. The membership of BACG consists of the superintendent of each participating school district. The Board of Directors of the BACG consists of one elected representative of each county, the superintendent of the fiscal agent and two non-voting members (administrator and fiscal agent). Members of the Board serve staggered two-year terms. Financial information can be obtained by contacting the North Point Educational Service Center, which serves as fiscal agent, at 4918 Milan Road, Sandusky, Ohio 44870.

Northern Ohio Educational Computer Association

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization, which is a computer consortium. NOECA is an association of 41 public school districts formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees, and a representative from the fiscal agent. Financial information can be obtained from Matt Bauer, who serves as Controller, 4918 Milan Road, Sandusky, Ohio 44870.

PUBLIC ENTITY RISK POOLS

Workers' Compensation Group Rating Program

The District participates in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP). The GRP is sponsored by OSBA and administered by CompManagement, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The District pays a fee to the GRP to cover the costs of administering the program.

Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority Board (SORSA), an insurance purchasing pool. SORSA's business affairs are conducted by a nine member Board of directors consisting of a President, Vice President, Secretary, Treasurer and five delegates. SORSA was created to provide joint self-insurance coverage and to assist members to prevent and reduce losses and injuries to the District's property and persons. It is intended to provide liability and property insurance at reduced premiums for the participants. SORSA is organized as a nonprofit corporation under provisions of Ohio Revised Code 2744.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

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

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association (Association) is a public entity risk pool comprised of several districts. The Association assembly consists of a superintendent or designated representative from each participating district and the program administrator. The Association is governed by a Board of Directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the Board. Financial information can be obtained by contacting the program administrator at the Huron-Erie School Employees Insurance Association, located at 4918 Milan Road, Sandusky, Ohio 44870.

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 are assigned to the fund from which they will be paid. The difference between governmental fund assets plus deferred outflows of resources and liabilities plus 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.

Permanent Improvement Fund - This fund is used to account for financial resources that are restricted, committed or assigned for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Other governmental funds of the District are used to account for specific revenue sources that are restricted or committed to an expenditure for specified purposes other than 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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE 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 trust funds are private-purpose trusts which account for scholarship programs 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.

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

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE 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 Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or 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. See Notes 14 and 15 for deferred outflows of resources related to the District's net pension liability and net OPEB liability, respectively.

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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

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

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.

See Notes 14 and 15 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

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund, function, object level for the general fund and at the fund level for all other funds.

Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The purpose of this budget document is to reflect the need for an existing (or increased) tax rate. By no later than January 20, the Board-adopted budget is filed with Erie County Budget Commission for rate determination.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

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

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the original and final certificates of estimated resources issued during the fiscal year.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the legal level of budgetary control must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, all supplemental appropriations were legally enacted.

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 budget amounts reflect the first appropriation for the fund that covered the entire fiscal year, including amounts automatically carried over from prior year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year.

Lapsing of Appropriations:

Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Cash disbursements plus encumbrances may not legally exceed budgeted appropriations at the legal level of control.

Encumbrance accounting is utilized with District funds in the normal course of operations, for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to commitment for a future expenditure and does not represent a liability.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

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

F. Cash and Investments

To improve cash management, cash received by the District is pooled. 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 cash equivalents" on the basic financial statements.

During fiscal year 2018, investments were limited to nonnegotiable certificates of deposits and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are recorded at cost.

During fiscal year 2018, the District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The District measures 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 \$8,169, which includes \$2,675 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 fiscal year end is provided in Note 4.

G. Inventory

On government-wide 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. Inventories are accounted for using the purchase method on the fund financial statements and using the consumption method on the government-wide financial statements.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE 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 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 assets.

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

H. Prepayments

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

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deductions during the year. Donated capital assets are recorded at their acquisition values as of the date received. The District maintains a capitalization threshold of \$5,000. 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 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>Governmental Activities Estimated Lives</u>
Land improvements	5 - 25 years
Buildings and improvements	10 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

J. Interfund Balances

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

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

K. 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.

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 severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service and all employees with at least twenty years of service regardless of their age were considered expected to become eligible 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 the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

L. 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, compensated absences, net pension/OPEB liability, and lease purchase payments that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

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

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 are 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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE 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 and liabilities and deferred inflows. 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.

O. 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.

P. Interfund Activity

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

Q. 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.

R. Extraordinary and Special Items

Extraordinary items are significant transactions or events that are both unusual in nature and infrequent in occurrence. Special items are significant 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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE 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 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.

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 Pensions", 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 effected the District's postemployment benefit plan disclosures, as presented in Note 15 to the basic financial statements, and added required supplementary information.

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.

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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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	\$ (11,661,698)
Deferred outflows - payments subsequent to measurement date	45,018
Net OPEB liability	(4,842,173)
Restated net position at July 1, 2017	\$ (16,458,853)

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:

Nonmajor funds	Deficit
Food Service	\$ 43,427
IDEA Part B	31,011
Title I	25,866
Preschool Stimulus	269
Improving Teacher Quality	1,107

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 and grant revenue not received at fiscal year end.

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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

A. Deposits with Financial Institutions

At June 30, 2018, the carrying amount of all District deposits, including \$1,050,000 in nonnegotiable certificates of deposit, was \$2,626,174. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2018, \$1,469,691 of the District’s bank balance of \$2,776,119 was exposed to custodial risk as discussed below, while \$1,306,428 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a reduced rate set by the Treasurer of State. Financial institutions which have received an extension (the “grace period”) from the Ohio Treasurer of State to participate in the OPCS beyond June 30, 2018 may also pledge a single pool of eligible securities to secure the repayment of all public moneys deposited in the institution and not otherwise secured pursuant to law, provided that at all times the total market value of the securities so pledged is at least equal to 105% of the total amount of all public deposits to be secured by the pooled securities that are not covered by any federal deposit insurance. For 2018, none of the District’s financial institutions participated in the OPCS, because they received the extension of time to participate.

B. Investments

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

Measurement/ <u>Investment type</u>	Investment Maturities	
	Amortized	6 months or
	Cost	less
STAR Ohio	\$ 50,033	\$ 50,033

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

Credit Risk: Standard & Poor’s has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The District’s investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. 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 places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2018:

<u>Measurement/ Investment type</u>	<u>Amortized Cost</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 50,033</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and cash equivalents as reported on the statement of net position as of June 30, 2018:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 2,626,174
Investments	<u>50,033</u>
Total	<u>\$ 2,676,207</u>

<u>Cash and cash equivalents per statement of net position</u>	
Governmental activities	\$ 2,346,651
Private purpose trust funds	282,637
Agency fund	<u>46,919</u>
Total	<u>\$ 2,676,207</u>

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

NOTE 5 - INTERFUND TRANSACTIONS

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

<u>Transfers to the nonmajor governmental funds from:</u>	<u>Amount</u>
General fund	<u>\$ 44,658</u>

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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

- B. 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>\$ 7,884</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; therefore, no internal balances at June 30, 2018 are reported on the statement of net position.

C. Due To / Due From Other Funds

Interfund balances at June 30, 2018 as reported on the fund statements, consist of the following amounts due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	<u>\$ 1,107</u>

The primary purpose of the interfund balances is to cover negative cash balances 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; therefore, no internal balances at June 30, 2018 are reported on the statement of net position.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

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.

The District receives property taxes from Erie County and Sandusky County. The County Auditors periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2018, are available to finance fiscal year 2018 operations. The amount available as an advance at June 30, 2018 was \$784,353 in the general fund and \$22,262 in the permanent improvement fund. This amount is recorded as revenue. The amount available for advance at June 30, 2017 was \$740,819 in the general fund and \$21,070 in the permanent improvement 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.

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.

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	\$ 179,804,860	94.50	\$ 181,448,390	94.28
Public utility personal	<u>10,473,390</u>	<u>5.50</u>	<u>11,012,540</u>	<u>5.72</u>
Total	<u>\$ 190,278,250</u>	<u>100.00</u>	<u>\$ 192,460,930</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$63.16		\$63.16	

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE 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 receivable, accrued interest and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds.

Governmental Activities:	
Property taxes	\$ 6,183,682
Accounts receivable	144,760
Accrued interest	6,536
Intergovernmental	<u>312,525</u>
Total Receivable	<u>\$ 6,647,503</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:

Governmental activities:	<u>Balance 06/30/17</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/18</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 106,152	\$ 76,602	\$ -	\$ 182,754
Total capital assets, non being depreciated	<u>106,152</u>	<u>76,602</u>	<u>-</u>	<u>182,754</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,385,890	224,322	(104,752)	1,505,460
Building and improvements	11,100,710	-	-	11,100,710
Furniture and equipment	974,496	108,746	(51,917)	1,031,325
Vehicles	<u>1,576,535</u>	<u>-</u>	<u>(48,980)</u>	<u>1,527,555</u>
Total capital assets, being depreciated	<u>15,037,631</u>	<u>333,068</u>	<u>(205,649)</u>	<u>15,165,050</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,178,689)	(27,405)	104,752	(1,101,342)
Building and improvements	(5,080,901)	(222,485)	-	(5,303,386)
Furniture and equipment	(666,404)	(46,727)	32,224	(680,907)
Vehicles	<u>(1,006,766)</u>	<u>(93,757)</u>	<u>44,082</u>	<u>(1,056,441)</u>
Total accumulated depreciation	<u>(7,932,760)</u>	<u>(390,374)</u>	<u>181,058</u>	<u>(8,142,076)</u>
Governmental activities capital assets, net	<u>\$ 7,211,023</u>	<u>\$ 19,296</u>	<u>\$ (24,591)</u>	<u>\$ 7,205,728</u>

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE 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	\$ 175,899
Special	864
<u>Support services:</u>	
Administration	17,112
Operations and maintenance	44,618
Pupil transportation	102,299
<u>Operation of non-instructional services:</u>	
Extracurricular	41,948
Food service operations	<u>7,634</u>
Total depreciation expense	<u>\$ 390,374</u>

NOTE 9 - LEASE-PURCHASE AGREEMENTS

During a prior fiscal year, the District entered into a lease-purchase agreement with Columbus Regional Airport Authority to finance the construction of 4 classrooms, a gymnasium, computer lab, and a library to the Bogart Elementary School Building and improvements to the central office located in that building. The District has also entered into a lease-purchase agreement to finance building improvements at the Townsend Learning Center. These leases meet the criteria of a capital lease as defined by GAAP which defines a lease-purchase generally as one which transfers benefits and risks of ownership to the lessee.

Capital assets acquired by the lease-purchase agreements have been capitalized in the amount of \$4,464,450. Accumulated depreciation at June 30, 2018 was \$638,407 leaving a book value of \$3,826,043. Lease-purchase payments have been reflected as debt service expenditures in the general fund. There was \$452,000 in principal payments in fiscal year 2018.

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

<u>Fiscal Year Ending June 30,</u>	<u>Total</u>
2019	\$ 566,611
2020	565,568
2021	557,957
2022	196,977
2023	195,794
2024 - 2028	<u>1,164,248</u>
Total minimum lease payments	3,247,155
Less: amount representing interest	<u>(479,155)</u>
Present value of minimum lease payments	<u>\$ 2,768,000</u>

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

NOTE 10 - LONG-TERM OBLIGATIONS

- A. The long-term obligations at June 30, 2017 have been restated as described in Note 3.A. The District's long-term obligations during the year consist of the following.

	Restated Balance Outstanding <u>06/30/17</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/18</u>	Amounts Due in <u>One Year</u>
Lease-purchase agreements	\$ 3,220,000	\$ -	\$ (452,000)	\$ 2,768,000	\$ 467,000
2018 Tax anticipation note	-	750,000	-	750,000	-
Net pension liability	22,243,693	-	(5,034,225)	17,209,468	-
Net OPEB liability	4,842,173	37,994	(645,356)	4,234,811	-
Compensated absences	<u>882,219</u>	<u>192,196</u>	<u>(109,829)</u>	<u>964,586</u>	<u>63,640</u>
Total governmental activities	<u>\$ 31,188,085</u>	<u>\$ 980,190</u>	<u>\$ (6,241,410)</u>	<u>\$ 25,926,865</u>	<u>\$ 530,640</u>

Lease-purchase Agreements: See Note 9 for detail on the District's lease-purchase agreements.

Net Pension Liability: See Note 14 for details. The District pays obligations related to employee compensation from the fund benefitting from their service.

Net OPEB Liability: See Note 15 for details. The District pays obligations related to employee compensation from the fund benefitting from their service.

Tax Anticipation Notes, Series 2018: On May 21, 2018, the District issued tax anticipation notes for the purpose of general construction. These notes are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net position.

The notes were issued in the amount of \$750,000 and mature on December 1, 2028. The stated interest rate of the notes is 3.45% and interest payments are due on June 1 and December 1 of each year. The District has \$602,680 in unspent proceeds at June 30, 2018.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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 future debt service requirements to maturity for the tax anticipation notes:

Fiscal Year Ending June 30,	Tax Anticipation Notes		
	Principal	Interest	Total
2019	\$ -	\$ 24,869	\$ 24,869
2020	65,000	24,754	89,754
2021	65,000	22,511	87,511
2022	70,000	20,183	90,183
2023	70,000	17,768	87,768
2024	75,000	15,266	90,266
2025	75,000	12,679	87,679
2026	80,000	10,006	90,006
2027	80,000	7,246	87,246
2028	85,000	4,399	89,399
2029	85,000	1,466	86,466
Total	<u>\$ 750,000</u>	<u>\$ 161,147</u>	<u>\$ 911,147</u>

Compensated Absences: Compensated absences will be paid from the fund from which the employee's salaries are paid which, for the District, is primarily the general fund and the food service fund (a nonmajor governmental fund).

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2018, are a voted debt margin of \$17,321,484 and an unvoted debt margin of \$192,461.

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

NOTE 11 - OPERATING LEASE - LESSOR DISCLOSURE

The District is the lessor of property located in Castalia, Ohio. The property located in Castalia is within the District's high school footprint and includes a classroom created in an outbuilding and our fitness center. The lease is between the District and the Governing Authority of the Townsend Community School. The term of the lease is from August 1, 2017 through July 31, 2018. Included in the lease agreement is a provision to reimburse the District for rent of \$24,000 and building and grounds maintenance of \$20,000 per year. Townsend utilized the land adjacent to the Margaretta High School to construct a blended learning center. The Townsend Learning Center opened in fiscal year 2016 and will have an impact on the leased areas in the short-term and long-term.

NOTE 12 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and state laws. Classified employees earn ten to twenty-one days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers do not earn vacation time.

Each employee earns sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made for thirty-three percent of the total sick leave accumulation, up to a maximum accumulation of seventy days for all employees. An employee receiving such payment must meet the retirement provisions set by STRS and SERS.

B. Insurance Benefits

The District provides life insurance and accidental death and dismemberment insurance in the amount of \$150,000 to the Superintendent, \$75,000 to Administrators, Supervisors and Treasurer, \$50,000 to certified staff members and \$10,000 to \$20,000 to all other classified employees.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

NOTE 13 - RISK MANAGEMENT

A. Comprehensive

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 contracted with SORSA to provide insurance coverage in the following amounts:

<u>Limits of Coverage</u>	<u>Carrier</u>	<u>Coverage</u>
General liability:		
Per occurrence/	SORSA Insurance	\$15,000,000
Aggregate		17,000,000
Fleet:		
Comprehensive	SORSA Insurance	15,000,000
Collision		
Building and contents	SORSA Insurance	50,052,474

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. Huron-Erie School Employees Insurance Association

The District has contracted with the Huron-Erie School Employees Insurance Association (Association) to provide medical/surgical, prescription drug and dental insurance benefits for its employees and their covered dependents. The Association is a shared risk pool comprised of several school districts that provide public education within Erie and Huron Counties. The Districts pay monthly contributions that are placed in a common fund from which eligible claims and expenses are paid for employees of participating school districts and their covered dependents. Claims are paid for all participants regardless of claims flow.

In the event of withdrawal, the District shall assume and be responsible for payment of all claims of its eligible employees, families, and dependents from the effective date of withdrawal, regardless of when such claims were incurred, processed, or presented to the Association, insurance provider, insurance consultant, or any other appropriate or authorized person or representative; provided further, any such claims, which are paid after the effective date of withdrawal by the Association insurance provider or insurance consultant, or charged to such parties, shall be reimbursed in full by any withdrawing member upon demand of the Association.

Post-employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 15.

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

NOTE 13 - RISK MANAGEMENT - (Continued)

C. OSBA Workers' Compensation Group Rating Plan

For fiscal year 2018, the District participated in the Ohio School Boards Association Workers' Compensation Group Retrospective Plan (the "Plan"), an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the state based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of CompManagement provides administrative, cost control and actuarial services to the Plan.

NOTE 14 - 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.

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.

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the 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 \$418,082 for fiscal year 2018. Of this amount, \$60,414 is reported as pension and postemployment benefits payable.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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.

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.

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 \$857,005 for fiscal year 2018. Of this amount, \$150,328 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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.07475590%	0.05010591%	
Proportion of the net pension liability current measurement date	<u>0.08072990%</u>	<u>0.05214028%</u>	
Change in proportionate share	<u>0.00597400%</u>	<u>0.00203437%</u>	
Proportionate share of the net pension liability	\$ 4,823,433	\$ 12,386,035	\$ 17,209,468
Pension expense	\$ (39,234)	\$ (4,542,966)	\$ (4,582,200)

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	\$ 207,587	\$ 478,291	\$ 685,878
Changes of assumptions	249,423	2,708,962	2,958,385
Difference between District contributions and proportionate share of contributions/ change in proportionate share	315,664	795,653	1,111,317
District contributions subsequent to the measurement date	<u>418,082</u>	<u>857,005</u>	<u>1,275,087</u>
Total deferred outflows of resources	<u>\$1,190,756</u>	<u>\$4,839,911</u>	<u>\$6,030,667</u>

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ -	\$ 99,826	\$ 99,826
Net difference between projected and actual earnings on pension plan investments	22,898	408,754	431,652
Difference between District contributions and proportionate share of contributions/ change in proportionate share	<u>1,297</u>	<u>-</u>	<u>1,297</u>
Total deferred inflows of resources	<u>\$ 24,195</u>	<u>\$ 508,580</u>	<u>\$ 532,775</u>

\$1,275,087 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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2019	\$ 328,075	\$ 796,982	\$ 1,125,057
2020	387,930	1,353,025	1,740,955
2021	144,919	987,735	1,132,654
2022	<u>(112,445)</u>	<u>336,584</u>	<u>224,139</u>
Total	<u>\$ 748,479</u>	<u>\$ 3,474,326</u>	<u>\$ 4,222,805</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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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)

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.

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
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	10.00	3.00
Total	<u>100.00 %</u>	

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

Sensitivity of the 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	\$ 6,693,672	\$ 4,823,433	\$ 3,256,727

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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.

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.

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

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

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:

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net pension liability	\$ 17,754,960	\$ 12,386,035	\$ 7,863,521

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

NOTE 15 - 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.

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.

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

NOTE 15 - DEFINED BENEFIT OPEB PLANS - (Continued)

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 \$43,710.

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 \$59,195 for fiscal year 2018. Of this amount, \$45,948 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for 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.

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

NOTE 15 - DEFINED BENEFIT OPEB PLANS - (Continued)

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	0.07586720%	0.05010591%	
Proportion of the net OPEB liability current measurement date	<u>0.08199350%</u>	<u>0.05214028%</u>	
Change in proportionate share	<u>0.00612630%</u>	<u>0.00203437%</u>	
Proportionate share of the net OPEB liability	\$ 2,200,490	\$ 2,034,321	\$ 4,234,811
OPEB expense	\$ 175,542	\$ (605,223)	\$ (429,681)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ -	\$ 117,434	\$ 117,434
Difference between District contributions and proportionate share of contributions/ change in proportionate share	122,096	93,256	215,352
District contributions subsequent to the measurement date	<u>59,195</u>	<u>-</u>	<u>59,195</u>
Total deferred outflows of resources	<u>\$ 181,291</u>	<u>\$ 210,690</u>	<u>\$ 391,981</u>

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

NOTE 15 - DEFINED BENEFIT OPEB PLANS - (Continued)

	SERS	STRS	Total
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 5,811	\$ 86,952	\$ 92,763
Changes of assumptions	208,815	163,871	372,686
Total deferred inflows of resources	\$ 214,626	\$ 250,823	\$ 465,449

\$59,195 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:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	\$ (32,873)	\$ (13,935)	\$ (46,808)
2020	(32,873)	(13,935)	(46,808)
2021	(25,332)	(13,935)	(39,267)
2022	(1,452)	(13,935)	(15,387)
2023	-	7,803	7,803
Thereafter	-	7,804	7,804
Total	\$ (92,530)	\$ (40,133)	\$ (132,663)

Actuarial Assumptions - SERS

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

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

NOTE 15 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

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

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

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

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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

NOTE 15 - DEFINED BENEFIT OPEB PLANS - (Continued)

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.

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	\$ 2,657,372	\$ 2,200,490	\$ 1,838,523

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

NOTE 15 - DEFINED BENEFIT OPEB PLANS - (Continued)

	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	\$ 1,785,533	\$ 2,200,490	\$ 2,749,693

Actuarial Assumptions - STRS

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

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

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

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

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

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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

NOTE 15 - DEFINED BENEFIT OPEB PLANS - (Continued)

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.

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.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

NOTE 15 - DEFINED BENEFIT OPEB PLANS - (Continued)

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	\$ 2,731,044	\$ 2,034,321	\$ 1,483,683
	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 1,413,359	\$ 2,034,321	\$ 2,851,580

NOTE 16 - 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 assigned or committed 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).

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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	\$ (1,059,920)
Net adjustment for revenue accruals	(109,716)
Net adjustment for expenditure accruals	74,214
Net adjustment for other financing sources/(uses)	1,900
Funds budgeted elsewhere	13,698
Adjustment for encumbrances	40,814
GAAP basis	<u>\$ (1,039,010)</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the public school support fund.

NOTE 17 - 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 party to legal proceedings which, in the opinion of District management, will have a material effect, if any, on the financial condition of the District.

C. Foundation Funding

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the District.

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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

NOTE 18 - SET-ASIDES

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	199,786
Current year qualifying expenditures	(326,447)
Current year offsets	<u>(179,611)</u>
Total	<u>\$ (306,272)</u>
Balance carried forward to fiscal year 2019	<u>\$ -</u>
Set-aside balance June 30, 2018	<u>\$ -</u>

The District issued \$750,000 in tax anticipation notes for capital improvements. These proceeds may be used as an offset in future years.

NOTE 19 - 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>Fund</u>	<u>Year-End Encumbrances</u>
General	\$ 40,134
Nonmajor governmental funds	<u>545,253</u>
Total	<u>\$ 585,387</u>

REQUIRED SUPPLEMENTARY INFORMATION

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE 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	0.08072990%	0.07475990%	0.07486720%	0.07105400%	0.07105400%
District's proportionate share of the net pension liability	\$ 4,823,433	\$ 5,471,735	\$ 4,271,995	\$ 3,596,002	\$ 4,225,353
District's covered payroll	\$ 2,640,457	\$ 2,346,193	\$ 2,253,892	\$ 2,064,690	\$ 2,019,790
District's proportionate share of the net pension liability as a percentage of its covered payroll	182.67%	233.22%	189.54%	174.17%	209.20%
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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE 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	0.05214028%	0.05010591%	0.04876522%	0.04801106%	0.04801106%
District's proportionate share of the net pension liability	\$ 12,386,035	\$ 16,771,958	\$ 13,477,280	\$ 11,677,951	\$ 13,910,699
District's covered payroll	\$ 5,806,614	\$ 5,277,221	\$ 5,087,836	\$ 4,905,408	\$ 4,927,808
District's proportionate share of the net pension liability as a percentage of its covered payroll	213.31%	317.82%	264.89%	238.06%	282.29%
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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE 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	\$ 418,082	\$ 369,664	\$ 328,467	\$ 297,063
Contributions in relation to the contractually required contribution	<u>(418,082)</u>	<u>(369,664)</u>	<u>(328,467)</u>	<u>(297,063)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 3,096,904	\$ 2,640,457	\$ 2,346,193	\$ 2,253,892
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>
\$ 286,166	\$ 279,539	\$ 270,065	\$ 243,582	\$ 261,459	\$ 197,753
<u>(286,166)</u>	<u>(279,539)</u>	<u>(270,065)</u>	<u>(243,582)</u>	<u>(261,459)</u>	<u>(197,753)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,064,690	\$ 2,019,790	\$ 2,007,918	\$ 1,937,804	\$ 1,931,012	\$ 2,009,685
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE 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	\$ 857,005	\$ 812,926	\$ 738,811	\$ 712,297
Contributions in relation to the contractually required contribution	<u>(857,005)</u>	<u>(812,926)</u>	<u>(738,811)</u>	<u>(712,297)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 6,121,464	\$ 5,806,614	\$ 5,277,221	\$ 5,087,836
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>
\$ 637,703	\$ 640,615	\$ 690,654	\$ 709,031	\$ 706,687	\$ 773,787
<u>(637,703)</u>	<u>(640,615)</u>	<u>(690,654)</u>	<u>(709,031)</u>	<u>(706,687)</u>	<u>(773,787)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 4,905,408	\$ 4,927,808	\$ 5,312,723	\$ 5,454,085	\$ 5,436,054	\$ 5,952,208
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE 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	0.08199350%	0.07586720%
District's proportionate share of the net OPEB liability	\$ 2,200,490	\$ 2,162,496
District's covered payroll	\$ 2,640,457	\$ 2,346,193
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	83.34%	92.17%
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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE 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

	2018	2017
District's proportion of the net OPEB liability	0.05214028%	0.05010591%
District's proportionate share of the net OPEB liability	\$ 2,034,321	\$ 2,679,677
District's covered payroll	\$ 5,806,614	\$ 5,277,221
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	35.03%	50.78%
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

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE 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	\$ 59,195	\$ 45,018	\$ 38,845	\$ 50,092
Contributions in relation to the contractually required contribution	<u>(59,195)</u>	<u>(45,018)</u>	<u>(38,845)</u>	<u>(50,092)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 3,096,904	\$ 2,640,457	\$ 2,346,193	\$ 2,253,892
Contributions as a percentage of covered payroll	1.91%	1.70%	1.66%	2.22%

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>
\$ 33,089	\$ 33,351	\$ 40,112	\$ 57,550	\$ 40,077	\$ 116,616
<u>(33,089)</u>	<u>(33,351)</u>	<u>(40,112)</u>	<u>(57,550)</u>	<u>(40,077)</u>	<u>(116,616)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,064,690	\$ 2,019,790	\$ 2,007,918	\$ 1,937,804	\$ 1,931,012	\$ 2,009,685
1.60%	1.65%	2.00%	2.97%	2.07%	5.80%

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE 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	\$ 6,121,464	\$ 5,806,614	\$ 5,277,221	\$ 5,087,836
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>
\$ 50,401	\$ 49,278	\$ 53,127	\$ 54,541	\$ 54,361	\$ 59,522
<u>(50,401)</u>	<u>(49,278)</u>	<u>(53,127)</u>	<u>(54,541)</u>	<u>(54,361)</u>	<u>(59,522)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 4,905,408	\$ 4,927,808	\$ 5,312,723	\$ 5,454,085	\$ 5,436,054	\$ 5,952,208
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE 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)

**MARGARETTA LOCAL SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE 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 year 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 2020.

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

Margaretta Local School District
Erie County
305 South Washington Street
Castalia, Ohio 44824

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 Margaretta Local School District, Erie County, Ohio, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Margaretta Local School District's basic financial statements and have issued our report thereon dated December 13, 2018, wherein we noted as discussed in Note 3, the Margaretta Local School District adopted Governmental Accounting Standards Board 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 Margaretta Local School District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Margaretta Local School District's internal control. Accordingly, we have not opined on it.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. 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 Margaretta Local School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed 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 Margaretta Local School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Margaretta Local School District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Julian & Grube, Inc.
December 13, 2018

OHIO AUDITOR OF STATE KEITH FABER



MARGARETTA LOCAL SCHOOL DISTRICT

ERIE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 5, 2019**