

LOCKLAND LOCAL SCHOOL DISTRICT

Financial Statements

Year Ended June 30, 2019

With Accountant's Compilation Report

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To the Board of Education of the
Lockland Local School District:

Management is responsible for the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Lockland Local School District (the "School District"), as of and for the year ended June 30, 2019, and related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents, in accordance with the modified cash basis of accounting. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements, nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. We do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

We draw attention to Note 1D of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The supplementary information contained in pages 3 through 9 and pages 43 and 44 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management. The supplementary information was subject to our compilation engagement. We have not audited or reviewed the supplementary information and do not express an opinion, a conclusion, nor provide any assurance on such information.

This report is intended for the use of management and members of Council, and the Auditor of State of Ohio, or their designee, and is not intended to be and should not be used by anyone other than those specified parties.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
August 26, 2019

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
Unaudited*

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Lockland Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2019 are as follows:

- For governmental activities, net position increased by \$1,266,703, which represents a 26% increase from 2018.
- General receipts accounted for \$8.1 million or 83% of all governmental receipts. Program specific receipts in the form of charges for services and sales, and operating and capital grants and contributions accounted for \$1.6 million or 17% of total governmental receipts of \$9.7 million.
- The School District had \$8.5 million in disbursements related to governmental activities; only \$1.6 million of these disbursements were offset by program specific charges for services and sales, and operating and capital grants and contributions. General receipts (primarily taxes and unrestricted grants and entitlements) of \$8.1 million provided resources for these programs sufficient to cover the program costs.
- The School District's major fund was the general fund. All governmental funds had total receipts of \$9.7 million and disbursements of \$8.5 million. The net change in fund balance for the year was most significant in the general fund, where the general fund's balance increased by \$1.2 million.

Using the Basic Financial Statements

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

Report Components

The Statement of Net Position and Statement of Activities provide information about the cash activities of the School District as a whole. Fund financial statements provide the next level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

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Unaudited*

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the School District as a Whole

The Statement of Net Position and the Statement of Activities reflect how the School District performed financially during fiscal year 2019, within the limitations of modified cash basis accounting. The Statement of Net Position presents the cash balances and investments of the governmental activities of the School District at fiscal year-end. The Statement of Activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, the reader can utilize these statements as one measure of the School District's financial condition. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial condition is improving or deteriorating. When evaluating the School District's financial condition, the reader should also consider other nonfinancial factors as well, such as the School District's property tax base, the condition of the School District's capital assets, the extent of the School District's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes.

In the Statement of Net Position and the Statement of Activities, all of the School District's programs and services are reported as Governmental Activities.

Reporting the School District's Most Significant Funds

Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's major funds.

Governmental funds. All of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified cash basis of accounting. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Management's Discussion and Analysis
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Unaudited

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the School District's own programs. All of the School District's fiduciary activity is reported in a separate Statement of Fiduciary Net Position – Modified Cash Basis.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A. Net position at year-end

The following table presents a condensed summary of the School District's net position of governmental activities at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Assets:		
Cash and investments	<u>\$ 6,107,383</u>	<u>\$ 4,840,680</u>
<i>Total Assets</i>	<u><u>\$ 6,107,383</u></u>	<u><u>\$ 4,840,680</u></u>
Net Position:		
Restricted	\$ 702,632	\$ 593,164
Unrestricted	<u>5,404,751</u>	<u>4,247,516</u>
<i>Total Net Position</i>	<u><u>\$ 6,107,383</u></u>	<u><u>\$ 4,840,680</u></u>

The restricted net position includes amounts restricted for capital projects, debt service and other purposes. These amounts are held to be used for specific purposes. The balance of unrestricted net position (\$5,404,751) may be used to meet the government's ongoing obligations to citizens and creditors.

Cash and investments increased by \$1,266,703 primarily due to continued positive operating results, with receipts and disbursements remaining fairly flat during the fiscal year.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
Unaudited*

The table below shows the net changes in governmental activities net position for fiscal year 2019 compared to 2018.

	<u>2019</u>	<u>2018</u>	Increase (Decrease)
Receipts:			
Program Receipts:			
Charges for services and sales	\$ 632,102	\$ 507,811	\$ 124,291
Operating grants and contributions	996,103	977,706	18,397
Capital grants and contributions	<u>5,400</u>	<u>5,400</u>	<u>-</u>
<i>Total Program Receipts</i>	1,633,605	1,490,917	142,688
General Receipts:			
Property taxes	2,444,918	2,671,919	(227,001)
Grants and entitlements	5,303,676	5,254,864	48,812
Payments in lieu of taxes	-	44,021	(44,021)
Investment earnings	136,883	51,848	85,035
Miscellaneous	<u>225,725</u>	<u>158,489</u>	<u>67,236</u>
<i>Total General Receipts</i>	<u>8,111,202</u>	<u>8,181,141</u>	<u>(69,939)</u>
<i>Total Receipts</i>	<u>9,744,807</u>	<u>9,672,058</u>	<u>72,749</u>
Disbursements:			
Instruction	4,854,789	4,766,845	87,944
Support services:			
Pupils and instructional staff	1,362,534	915,107	447,427
Board of Education, administration fiscal and business	1,046,403	1,135,097	(88,694)
Operation and maintenance of plant	740,820	933,576	(192,756)
Pupil transportation	111,895	85,508	26,387
Central	169,584	146,176	23,408
Non-instructional services	186,355	171,744	14,611
Food services	<u>5,724</u>	<u>279,199</u>	<u>(273,475)</u>
<i>Total Disbursements</i>	<u>8,478,104</u>	<u>8,433,252</u>	<u>44,852</u>
<i>Changes in Net Position</i>	1,266,703	1,238,806	\$ 27,897
<i>Beginning Net Position</i>	<u>4,840,680</u>	<u>3,601,874</u>	
<i>Ending Net Position</i>	<u>\$ 6,107,383</u>	<u>\$ 4,840,680</u>	

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Of the total governmental activities receipts of \$9,744,807, \$1,633,605 (17%) is from program receipts. This means that the government relies on general receipts to fund the majority of the cost of services provided to the citizens. Of those general receipts, 30% (\$2,444,918) comes from property tax levies and 65% (\$5,303,676) is from state funding. The School District's operations are reliant upon its property tax levy and state's foundation program.

Governmental Activities

The School District's governmental activities net position increased by \$1,266,703. Both total receipts and disbursements increased by less than 1% during the fiscal year. Under receipts, the School District experienced increases in charges for services and sales, due to increased tuition for foster-placed students, investment earnings, due to higher interest rates, and miscellaneous, due to increases in Medicaid reimbursements. These increases were offset by decreases in property taxes, due to receipt of delinquent payments in fiscal year 2018 and no payments in lieu of taxes due from the Village of Lockland during fiscal year 2019.

For disbursements, the School District experienced increases in pupil and instructional staff disbursements, due to the hiring of a Special Programs Director and leasing of Chromebooks for all students. The increases were offset due to several staff resignations, lower repair costs and outsourcing the food service program to Kings Local Schools.

The following table presents the total cost of each of the government's primary services, and the comparative net cost after deducting the receipts generated by each function. \$1,633,605 of the cost of the School District's programs was recouped in program receipts. Instruction costs were \$4,854,789, but program receipts contributed to fund only 25% of these costs. Thus, general receipts of \$3,618,824 were used to support the remainder of the instruction costs.

	2019		2018	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Disbursements:				
Instruction	\$ 4,854,789	\$ 3,618,824	\$4,766,845	\$3,643,035
Support services:				
Pupils and instructional staff	1,362,534	1,003,372	915,107	808,189
Board of Education, administration fiscal and business	1,046,403	1,046,403	1,135,097	1,135,097
Operation and maintenance of plant	740,820	740,820	933,576	933,576
Pupil transportation	111,895	111,895	85,508	85,508
Central	169,584	169,584	146,176	146,176
Non-instructional services	186,355	172,026	171,744	154,585
Food services	5,724	(18,425)	279,199	36,169
<i>Total Disbursements</i>	<u>\$ 8,478,104</u>	<u>\$ 6,844,499</u>	<u>\$ 8,433,252</u>	<u>\$6,942,335</u>

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FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S INDIVIDUAL FUNDS

Governmental funds

The School District has one major governmental fund: the General Fund. Assets of this fund comprise \$5,314,019 (87%) of the total \$6,107,383 governmental fund assets.

General Fund: Fund balance at June 30, 2019 was \$5,314,019, an increase of \$1,157,235. The reasons for the changes were previously discussed under governmental activities.

	2019	2018	Increase (Decrease)
Receipts	\$ 8,702,595	\$ 8,672,402	\$ 30,193
Disbursements	(7,299,975)	(7,254,293)	45,682
Other financing uses	(245,385)	(218,349)	27,036
Net change in fund balance	<u>\$ 1,157,235</u>	<u>\$ 1,199,760</u>	<u>\$ (42,525)</u>

General Fund Budgeting Highlights

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

For the General Fund, final budget basis receipts were \$8.7 million, a 7% increase from the original estimate of \$8.1 million, primarily due to higher tuition payments for foster-placed student, better than expected investment returns, and higher than anticipated Medicaid reimbursements. Final budgeted disbursements and other financing uses were \$7.5 million, a decrease from the original estimate of \$9.5 million. The decrease was primarily due initial conservative estimates, lower than anticipated repair costs, and less transfers needed to subsidize other funds. Actual transfers out were just slightly higher from the prior year.

Capital Assets and Debt Administration

Capital Assets

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

Debt

Under the modified cash basis of accounting, the School District does not report bonds, long-term notes or short-term notes in the accompanying cash basis financial statements. However, the School District did not have any debt outstanding as of June 30, 2019.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
Unaudited*

Current Financial Related Activities

The School District had approximately \$5.3 million in unrestricted net position on the modified cash basis as of June 30, 2019. As the preceding information shows, the School District heavily depends on its property taxpayers. However, financially the future is not without challenges.

With the phase out of the tax on Tangible Personal Property (TPP) (HB66, 2005) fully completed in 2011, the School District was fully reliant on the phased-in state reimbursement to replace the lost revenue. In 2010, following legislative action, a School District's reliance on TPP reimbursement had to exceed 2% of selected revenue by 2013 in order to continue to receive the TPP reimbursement. After 2013, if the reliance exceeds 2% of selected revenues, the reimbursement is frozen until further action by the State legislature. The School District's TPP reimbursement is currently frozen; however, with the previous biennium budget, replacement revenue will continue to be phased out. The School District is still receiving TPP Reimbursements; however, Senate Bill No. 208 states that in fiscal year 2018 and beyond, this reimbursement will decrease by 5/8ths of a mill. In other words, fiscal year 2018 and beyond will show a reduction of Tangible Personal Property Reimbursement equivalent to 5/8ths of a current mill.

When the new administration began in fiscal year 2014, the first order of business was to study the spending patterns from the previous five years. We immediately came to the conclusion that a more fiscally responsible approach was needed in order to survive the next five years. We reduced expenditures across the School District and utilized old dormant funds. This in turn put less pressure on the General Fund. In addition, we have reduced the staff and closed the Arlington Heights Academy. In fiscal year 2020, we will continue to reduce expenditures; for, no school district should rely on all aspects of current funding to continue.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer at Lockland Local School District, 210 N. Cooper Avenue, Lockland, Ohio 45215.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Statement of Net Position - Modified Cash Basis

June 30, 2019

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments	<u>\$ 6,107,383</u>
Net Position:	
Restricted for:	
Capital projects	19,342
Debt service	299,033
Other purposes	384,257
Unrestricted	<u>5,404,751</u>
Total net position	<u><u>\$ 6,107,383</u></u>

See accompanying notes and accountant's compilation report.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Statement of Activities - Modified Cash Basis

Fiscal Year Ended June 30, 2019

	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$ 3,277,343	\$ 593,739	\$ 42,737	\$ 5,400	\$ (2,635,467)
Special	1,527,661	-	594,089	-	(933,572)
Other instruction	49,785	-	-	-	(49,785)
Support services:					
Pupil	742,165	-	226,511	-	(515,654)
Instructional staff	620,369	-	132,651	-	(487,718)
Board of Education	143,346	-	-	-	(143,346)
Administration	525,901	-	-	-	(525,901)
Fiscal	372,743	-	-	-	(372,743)
Business	4,413	-	-	-	(4,413)
Operation and maintenance of plant	740,820	-	-	-	(740,820)
Pupil transportation	111,895	-	-	-	(111,895)
Central	169,584	-	-	-	(169,584)
Non-instructional services:					
Extracurricular activities	186,234	14,214	-	-	(172,020)
Community service	121	-	115	-	(6)
Food service	5,724	24,149	-	-	18,425
	<u>\$ 8,478,104</u>	<u>\$ 632,102</u>	<u>\$ 996,103</u>	<u>\$ 5,400</u>	<u>(6,844,499)</u>
General Receipts:					
Property taxes, levied for general purposes					2,444,918
Grants and entitlements not restricted to specific programs					5,303,676
Investment earnings					136,883
Miscellaneous					225,725
Total general receipts					<u>8,111,202</u>
Change in net position					1,266,703
Net position beginning of year					<u>4,840,680</u>
Net position end of year					<u>\$ 6,107,383</u>

See accompanying notes and accountant's compilation report.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Statement of Assets and Fund Balances - Modified Cash Basis

Governmental Funds

June 30, 2019

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and investments	\$ 5,314,019	\$ 793,364	\$ 6,107,383
Fund Balances:			
Restricted	-	702,632	702,632
Assigned	12,528	90,732	103,260
Unassigned	<u>5,301,491</u>	<u>-</u>	<u>5,301,491</u>
Total fund balances	<u>\$ 5,314,019</u>	<u>\$ 793,364</u>	<u>\$ 6,107,383</u>

See accompanying notes and accountant's compilation report.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Statement of Receipts, Disbursements and Changes in Fund Balance - Modified Cash Basis

Governmental Funds

Fiscal Year Ended June 30, 2019

	General	Other Governmental Funds	Total Governmental Funds
Receipts			
Property taxes	\$ 2,444,918	\$ -	\$ 2,444,918
Tuition and fees	593,739	-	593,739
Interest	136,584	299	136,883
Charges for services	904	37,459	38,363
Intergovernmental	5,303,676	1,001,503	6,305,179
Miscellaneous	222,774	2,951	225,725
Total receipts	<u>8,702,595</u>	<u>1,042,212</u>	<u>9,744,807</u>
Disbursements			
Current:			
Instruction:			
Regular	3,232,071	45,272	3,277,343
Special	931,035	596,626	1,527,661
Other	49,785	-	49,785
Support services:			
Pupil	498,190	243,975	742,165
Instructional staff	486,268	134,101	620,369
Board of Education	142,846	500	143,346
Administration	525,701	200	525,901
Fiscal	372,743	-	372,743
Business	4,413	-	4,413
Operation and maintenance of plant	740,820	-	740,820
Pupil transportation	111,895	-	111,895
Central	169,584	-	169,584
Non-instructional services:			
Extracurricular activities	34,624	151,610	186,234
Community service	-	121	121
Food service	-	5,724	5,724
Total disbursements	<u>7,299,975</u>	<u>1,178,129</u>	<u>8,478,104</u>
Excess (deficiency) of receipts over (under) disbursements	<u>1,402,620</u>	<u>(135,917)</u>	<u>1,266,703</u>
Other Financing Sources (Uses):			
Transfers in	-	245,385	245,385
Transfers out	(245,385)	-	(245,385)
Total other financing sources (uses)	<u>(245,385)</u>	<u>245,385</u>	<u>-</u>
Net change in fund balance	1,157,235	109,468	1,266,703
Fund balance, beginning of year	4,156,784	683,896	4,840,680
Fund balance, end of year	<u>\$ 5,314,019</u>	<u>\$ 793,364</u>	<u>\$ 6,107,383</u>

See accompanying notes and accountant's compilation report.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Statement of Fiduciary Net Position - Modified Cash Basis

Fiduciary Funds

June 30, 2019

	<u>Agency Funds</u>
ASSETS	
Equity in pooled cash and investments	\$ <u>28,144</u>
Total assets	<u><u>28,144</u></u>
NET POSITION	
Held for students	<u>28,144</u>
Total net position	\$ <u><u>28,144</u></u>

See accompanying notes and accountant's compilation report.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Lockland Local School District, Ohio (the “School District”) have been prepared on a modified cash basis. The more significant of the School District’s accounting policies are described below:

A. The Reporting Entity

The reporting entity is comprised of the primary government, which consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the School District, this includes general operations, food service, and student related activities. Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization’s governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization’s resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes. There are no component units of the School District.

The School District is associated with two organizations that are defined as jointly governed organizations:

Great Oaks Institute of Technology and Career Development - The vocational school is a separate body politic and corporate established by the Ohio Revised Code to provide vocational and special education needs of the students. Great Oaks accepts non-tuition students from the School District as a member school; however, it is considered a separate political subdivision and is not considered to be part of the School District. To obtain financial information, write to Great Oaks at 3254 E Kemper Rd. Cincinnati, OH 45241.

Hamilton Clermont Cooperative (HCC) – HCC is one of 19 regional information technology centers established by the state of Ohio to provide data and internet services for public and non-public schools in the Greater Cincinnati Metropolitan area. The executive committee is the managerial body responsible for directing and supervising the daily operation of the HCC, setting policy and passing legislation. The executive committee is composed of up to 12 members; two superintendents from each county, the superintendent from each County ESC, one treasurer from each county, the treasurer of Hamilton and Clermont ESC shall serve as non-voting ex officio members. To obtain financial information, write to HCC at 1007 Cottonwood Drive, Loveland, Ohio 45140.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2019

B. Basis of Presentation

The School District uses the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 for financial reporting on a modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The School District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements providing more detailed financial information.

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

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

Fund Financial Statements: During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report more detailed information about the School District. The focus of governmental fund financial statements is on major funds. Fund statements present each major fund in a separate column and aggregate non-major funds in a single column. Fiduciary funds are reported by type.

C. Fund Accounting

The School District uses funds to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain school district activities or functions. Funds are classified into two categories: governmental and fiduciary. Each category is divided into separate fund types.

Governmental Funds

Governmental funds are those through which most governmental functions of the School District are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Cash disbursements are assigned to the fund from which they are paid. The following is the School District's only major governmental fund:

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2019

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

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

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. The School District's only fiduciary funds are agency funds.

Agency Funds - These funds are used to account for assets held by the School District as an agent for individuals, private organizations, other governmental units, and/or other funds. Agency funds are custodial in nature (assets equal net assets) and do not involve measurement of results of operations or have a measurement focus. In accordance with GASBS No. 34, fiduciary funds are not included in the government-wide statements. The School District's agency funds are used to account for student managed activities.

D. Basis of Accounting

Although required by the Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), the School District chooses to prepare its financial statements and notes in accordance with the modified cash basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary disbursements when a commitment is made (i.e., when an encumbrance is approved). These statements include adequate disclosure of material matters, in accordance with the basis of accounting described above.

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

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2019

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 appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The specific timetable for fiscal year 2019 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed tax 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 express purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the Board-adopted budget is filed with the Hamilton County Budget Commission for tax rate determination.
3. Prior to 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 June 30, the School 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 a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered cash balances from the preceding year as reported by the Treasurer.

The Certificate may be further amended during the year for projected increases or if the Treasurer identifies decreases in revenue. The amounts reported in the budgetary statement reflect the amounts set forth in the final Amended Certificate issued for fiscal year 2019.

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. All funds, other than agency funds, are legally required to be budgeted and appropriated. Short-term interfund loans are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.
6. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund or alter object appropriations within functions must be approved by the Board of Education.
7. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2019

8. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations that reallocated, increased, or decreased the original appropriated amounts. The Board legally enacted one supplemental appropriations measure during fiscal year 2019.
9. Unencumbered appropriations lapse at year-end. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level. Encumbrance accounting is utilized with School 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. For governmental fund types, encumbrances outstanding at year-end are not included as part of cash disbursements, but are recorded as the equivalent of disbursements on a budgetary basis in order to demonstrate legal compliance. The required supplementary information found after the notes to the financial statements provides a reconciliation of the budgetary and modified cash basis of accounting.

F. Equity in Pooled Cash and Investments

Cash and investments consist of the total of fund cash balances of all funds as of June 30, 2019. To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" in the financial statements.

During fiscal year 2019, investments were limited to negotiable certificates of deposit, a money market fund and the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Investments in STAR Ohio are valued at STAR Ohio's net asset value, which is the price the investment could be sold for on June 30, 2019. The District's money market fund and negotiable certificates of deposit investments are recorded at amounts reported by Fifth Third Bank at June 30, 2019.

For fiscal year 2019, 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.

The Board of Education allocates investment earnings to various funds in accordance with Ohio statute. Interest receipts for the fiscal year 2019 amounted to \$136,584 in the General Fund and \$299 in Other Governmental Funds.

G. Inventory

On the modified cash basis of accounting, inventories of supplies and food service items are reported as disbursements when purchased and are not recorded as assets in the basic financial statements.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2019

H. Capital Assets and Depreciation

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

I. Compensated Absences

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

J. 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 plans. 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.

K. Long-Term Debt

These modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. These statements report proceeds of debt when cash is received and debt service disbursements for debt principal payments. Additional information regarding legal debt margin can be found in Note 5.

L. Fund Balances

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

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

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The School District did not report any committed fund balances at June 30, 2019.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2019

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

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

The constraints placed on fund balance for the major and all other governmental funds at June 30, 2019 were:

Fund Balances	General	Other Governmental Funds	Total Governmental Funds
<i>Restricted for:</i>			
Food Service Operations	\$ -	20,067	20,067
State Grants	-	7,193	7,193
Federal Grants	-	48,719	48,719
Other Purposes	-	308,278	308,278
Debt Service Payments	-	299,033	299,033
Capital Improvements	-	19,342	19,342
<i>Total Restricted</i>	<u>-</u>	<u>702,632</u>	<u>702,632</u>
<i>Assigned to:</i>			
Other Purposes	<u>12,528</u>	<u>90,732</u>	<u>103,260</u>
<i>Unassigned</i>	<u>5,301,491</u>	<u>-</u>	<u>5,301,491</u>
<i>Total Fund Balance</i>	<u>\$ 5,314,019</u>	<u>793,364</u>	<u>6,107,383</u>

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

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2019

M. Net Position

Net position represents the difference between assets and liabilities. On the modified cash basis of accounting, net position equals assets since liabilities are not recorded. The statement reports restricted net position when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on their use. Restricted for Other Purposes is comprised of net position restricted for athletic programs, grants and scholarships. The School District first applies restricted resources when incurring a disbursement for which it may use either restricted or unrestricted resources.

N. Interfund Transactions

The statements report exchange transactions between funds as receipts in the seller funds and as disbursements in the purchasing funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Governmental funds report transfers as other financing sources/uses. The statements do not report repayments from funds responsible for particular disbursements to the funds initially paying the costs.

The statements report interfund loans as advances when paid or repaid. Both interfund transfers and advances are eliminated in the statement of activities.

NOTE 2 - EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

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

Interim monies may be invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2019

2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase 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 instruments rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

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

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2019

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*.

A. Deposits

At fiscal year-end, the carrying amount of the School District’s deposits was \$5,691,684 and the bank balance was \$5,719,408. Of the bank balance, \$250,000 was covered by federal depository insurance. The remaining balance was subject to custodial credit risk as it was covered by the Ohio Pooled Collateral System, maintained by the Treasurer of State. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

B. Investments

At June 30, 2019, the School District’s investment balance was as follows:

<u>Description</u>	<u>Credit Rating</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Concentration</u>
STAROhio	AAAm	N/A	\$ 12,804	3%
Money Market	AAAm	N/A	30,273	7%
Negotiable CDs	N/A	May 2022	400,766	90%
			<u>\$ 443,843</u>	

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Standard and Poor’s rated the School District’s STAR Ohio investment as AAAm. The money market fund carries a rating of AAAm by Standard and Poor’s. The Board has no policy on credit risk.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District’s investment policy does not address custodial credit risk.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Education’s formal investment policy states that “Investments held by the Treasurer must mature within five (5) years, unless they are matched to a specific obligation or debt of the School District.” This policy is intended to mitigate interest rate risk. STAR Ohio maturity dates are varied and short and are not subject to interest rate risk.

Concentration of Credit Risk: The School District places no limit on the amount it may invest in any one issue.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2019

Fair Value Measurements. The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The School District’s negotiable certificates of deposit were valued using pricing sources as provided by the investment manager (Level 2 inputs). Investments in the money market and STAR Ohio are excluded from fair value measurement requirements under generally accepted accounting principles and instead, are reported at amortized cost which approximates fair value.

NOTE 3 - INTERFUND TRANSACTIONS

The General Fund provides advances to the Other Governmental Funds as cash is required and these funds repay such advances as cash is available. There were no advances in fiscal year 2019. The transfers from the General Fund of \$245,385 were to Other Governmental Funds to subsidize those funds.

NOTE 4 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar-year basis. Distributions from the second half of the calendar year occur in a new fiscal year and are intended to finance the operations of that year, except monies available to be advanced against such distributions which may be appropriated and used in the current fiscal year. Property taxes include amounts levied against all real, public, and certain tangible (i.e., used in business) property located in the School District.

Real property taxes and public utility taxes are levied after April against the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised value.

Public utility property taxes are assessed on tangible personal property as well as land and improvements. Real property is assessed at 35% of true value and tangible personal property is currently assessed at varying percentages of true value. These taxes attach as a lien against local and inter-exchange telephone companies and are levied January 1 of the current year. Tangible personal property tax on business inventory, manufacturing machinery, and equipment is no longer levied and collected.

The assessed values upon which fiscal year 2019 taxes were collected are as follows:

	<u>2018 Second- Half Collections</u>		<u>2019 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate Personal Property	\$ 52,481,100 <u>8,797,350</u>	85.64% <u>14.36%</u>	\$ 52,693,540 <u>9,459,140</u>	84.78% <u>15.22%</u>
Total Assessed Value	<u>\$ 61,278,450</u>	<u>100.00%</u>	<u>\$ 62,152,680</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation		\$47.09		\$47.09

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2019

NOTE 5 – LEGAL DEBT MARGIN

The Ohio Revised Code provides that voted net general obligation debt of a school district should never exceed 9 percent of the total assessed valuation of the School District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1 percent of the property valuation of the School District. The School District's voted legal debt margin was \$5,593,741 with an unvoted debt margin of \$62,153 at June 30, 2019.

NOTE 6 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and natural disasters. During fiscal year 2019, the School District purchased from the Liberty Mutual Insurance Company general liability insurance, which carried a \$1 million per occurrence/\$2 million annual aggregate limitation. Fleet and property/casualty insurance are purchased through commercial carriers and traditionally funded, as are all benefit plans offered to employees. Settled claims have not exceeded these coverage's in any of the past three fiscal years.

Cincinnati USA Regional Chamber Group Rating Program

For fiscal year 2019, the School District participated in the Cincinnati USA Regional Chamber Group Rating Program, an incentive-based program to reduce overall costs. The intent of the Group Rating Program is to achieve the benefit of reduced premiums for the School District by virtue of its grouping and representation with other participants in the group. Each participant pays its individual premium for the program year based on the group's performance.

NOTE 7- DEFINED BENEFIT PENSION PLANS

Net Pension Liability

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension liability represents the School District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability has not been reported in the accompanying financial statements, however, information on the net pension liability has been disclosed below.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2019

The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

Benefits	Eligible to Retire on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017
Full Benefits	Age 65 with 5 years of service credit 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% for the first 30 years of service and 2.5% for years of service credit over 30. Final average salary is the average of the highest three years of salary.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2019

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% of their annual covered salary and the School District is required to contribute 14% 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% for plan members and 14% 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, 2019, the allocation to pension, death benefits, and Medicare B was 13.50%. The allocation to the Health Care Fund for the year ended June 30, 2019 was 0.50%.

The School District's contractually required contribution to SERS was approximately \$155,000 for fiscal year 2019.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2% 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 5 years of qualifying service credit, or age 55 with 25 years of service, or 31 years of service regardless of age. Eligibility charges 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% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5% of the 14% 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.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2019

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12% of the 14%-member rate goes to the DC Plan and the remaining 2% 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 plan at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2019, plan members were required to contribute 14% of their annual covered salary. The School District was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was approximately \$428,000 for fiscal year 2019.

Net Pension Liability

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	\$910,124	\$5,844,257	\$6,754,381
Proportion of the Net Pension Liability	0.0158913%	0.02657960%	
Change in Proportion	-0.0060213%	0.00183030%	

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2019

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Wage Inflation	3.00%
Future Salary Increases, including Inflation	3.50% to 18.20%, including inflation
COLA or Ad Hoc COLA	2.50%
Investment Rate of Return	7.50% net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal

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% of male rates, and 110% of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

The actuarial assumptions used were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015 adopted by the Board on April 21, 2016.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2019

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

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

Discount Rate – Total pension liability was calculated using the discount rate of 7.50%. 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%). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50%, 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%), or one percentage point higher (8.50%) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
School District's proportionate share of the net pension liability	\$1,281,978	\$910,124	\$598,349

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2019

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	12.50% at age 20 to 2.5% at age 65
Payroll Increases	3.00%
COLA or Ad Hoc COLA	0%
Investment Rate of Return	7.45% net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

The actuarial assumptions were based on the results of an actual experience study for the period July 1, 2011 through June 30, 2016.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	<u>6.84 %</u>

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

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2019

Discount Rate – The discount rate used to measure the total pension liability was 7.45% as of June 30, 2018. 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, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's proportionate share of the net pension liability	\$8,534,768	\$5,844,257	\$3,567,104

B. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS Ohio have an option to choose Social Security or SERS. The School District’s liability is 6.2% of wages paid.

NOTE 8 – DEFINED BENEFIT POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB)

Net OPEB Liability/(Asset)

The net OPEB liability/(asset) represents the School District’s proportionate share of each OPEB plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability/(asset) has not been reported in the accompanying financial statements, however, information on the net pension liability/(asset) has been disclosed below.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2019

The net OPEB liability/(asset) calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments, health care cost trends and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

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

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

GASB Statement No. 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/(asset). 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.

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB Statement No. 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.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2019

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% of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5% 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 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the School District's surcharge obligation was approximately \$9,600.

The surcharge, added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was approximately \$15,300 for fiscal year 2019.

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% of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2019

Net OPEB Liability/(Asset)

The net OPEB liability/(asset) was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability/(asset) was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability/(asset) was based on the School District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net OPEB Liability (Asset)	\$ 447,756	\$ (427,107)	\$ 20,649
Proportion of the Net OPEB Liability (Asset)	0.0161396%	0.02657960%	

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.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will consider the employee’s entire career with the employer and 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.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2019

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Inflation	3.00%
Wage Increases	3.50% - 18.20%
Investment Rate of Return	7.50% net of investments expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.62%
Prior Measurement Date	3.56%
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.70%
Prior Measurement Date	3.63%
Medical Trend Assumption	
Medicare	5.375% - 4.75%
Pre-Medicare	7.25% - 4.75%

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% of male rates, and 110% of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

The long-term 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%, 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.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2019

The target 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 in the following table:

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

Discount Rate – The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70%. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and SERS at the state statute contribution rate of 2.00% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% of contributions from 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 3.62% as of June 30, 2018 (e.g., municipal bond rate) was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and the Healthcare 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 (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

	<u>1% Decrease (2.70%)</u>	<u>Current Discount Rate (3.70%)</u>	<u>1% Increase (4.70%)</u>
School District's proportionate share of the net OPEB liability	\$543,317	\$447,756	\$372,090

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO
Notes to the Basic Financial Statements
Year Ended June 30, 2019

	1% Decrease (6.25% decreasing to 3.75%)	Current Trend Rate (7.25% decreasing to 4.75%)	1% Increase (8.25% decreasing to 5.75%)
School District's proportionate share of the net OPEB liability	\$361,257	\$447,756	\$562,296

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2018, actuarial valuation are presented below:

Salary increases	12.50% at age 20 to 2.50% at age 65	
Payroll increases	3.00%	
Investment rate of return	7.45%, net of investment expenses, including inflation	
Discount rate of return	7.45%	
Health care cost trends	Initial	Ultimate
Medical		
Pre-Medicare	6.00%	4.00%
Medicare	5.00%	4.00%
Prescription Drug		
Pre-Medicare	8.00%	4.00%
Medicare	-5.23%	4.00%

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% of rates through age 69, 70% of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100% 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% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2019

Since the prior measurement date, the discount rate was increased from 4.13% to 7.45% based on the methodology defined under GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*. Valuation year per capita health care costs were updated.

Also, since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9% to 1.944% per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 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>	<u>2.25</u>
Total	<u>100.00 %</u>	<u>6.84 %</u>

* 10-year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' 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 asset was 7.45% as of June 30, 2018. 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 projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan assets of 7.45% was used to measure the total OPEB liability as of June 30, 2018.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2019

Sensitivity of the School District's Proportionate Share of the Net OPEB Asset to Changes in the Discount Rate and the Health Care Cost Trend Rates – The following table presents the School District's proportionate share of the net OPEB asset calculated using the current period discount rate assumption of 7.45%, as well as what the School District's proportionate share of the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45%) and one percentage point higher (8.45%) than the current rate. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower and one percentage point higher than the current health care cost trend rates:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's proportionate share of the net OPEB (asset)	\$ (366,071)	\$ (427,107)	\$ (478,405)

	1% Decrease in Trend Rates	Current Trend Rate	1% Increase in Trend Rates
School District's proportionate share of the net OPEB (asset)	\$ (475,509)	\$ (427,107)	\$ (377,951)

NOTE 9 - CONTINGENCIES

A. Grants

The School District receives 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 general fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2019, if applicable, cannot be determined at this time.

B. Litigation

The School District is party to legal proceedings. The School District is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

C. School District 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, the impact of future FTE adjustments on the fiscal year 2019 financial statements is not determinable, at this time.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Basic Financial Statements

Year Ended June 30, 2019

NOTE 10 - REQUIRED SET-ASIDES

The School District is required by State statute to annually set aside in the general fund an amount based on the statutory formula for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

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

	<u>Capital Improvements</u>
Set-aside balance as of June 30, 2018	\$ -
Current year set-aside requirement	94,623
Current year qualifying disbursements	<u>(397,521)</u>
Total	<u><u>(302,898)</u></u>
Set-aside balance as of June 30, 2019	<u><u>\$ -</u></u>

NOTE 11 - COMPLIANCE

GAAP Reporting

Contrary to the Ohio Revised Code § 117.38 and Ohio Administrative Code §117-03(B), the School District does not prepare its financial statements in accordance with accounting principles generally accepted in the United States of America.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Supplementary Information

Schedule of Receipts, Disbursements and Changes in Fund

Balance - Budget and Actual (Budgetary Basis)

General Fund

Fiscal Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance With Final Budget
Receipts				
Property taxes	\$ 2,443,672	\$ 2,444,852	\$ 2,444,918	\$ 66
Tuition and fees	229,632	586,869	593,739	6,870
Interest	47,832	122,243	123,674	1,431
Intergovernmental	5,320,997	5,303,676	5,303,676	-
Miscellaneous	82,335	210,423	212,887	2,464
Total receipts	<u>8,124,468</u>	<u>8,668,063</u>	<u>8,678,894</u>	<u>10,831</u>
Disbursements				
Current:				
Instruction:				
Regular	4,034,313	3,232,071	3,232,071	-
Special	1,154,683	931,035	931,035	-
Other instruction	64,750	49,785	49,785	-
Support services:				
Pupil	565,694	498,190	498,190	-
Instructional staff	544,304	486,268	486,268	-
Board of Education	200,050	142,846	142,846	-
Administration	591,869	525,701	525,701	-
Fiscal	416,823	372,330	372,743	(413)
Business	6,500	4,413	4,413	-
Operation and maintenance of plant	1,187,757	740,820	740,820	-
Pupil transportation	111,000	111,895	111,895	-
Central	219,077	169,585	169,585	-
Non-instructional services:				
Extracurricular activities	18,914	11,942	11,942	-
Total disbursements	<u>9,115,734</u>	<u>7,276,881</u>	<u>7,277,294</u>	<u>(413)</u>
Excess (deficiency) of receipts over (under) disbursements	(991,266)	1,391,182	1,401,600	10,418
Other financing uses:				
Transfers out	(400,000)	(260,385)	(260,385)	-
Net change in fund balance	(1,391,266)	1,130,797	1,141,215	\$ 10,418
Fund balance, beginning of year	4,159,514	4,159,514	4,159,514	
Fund balance, end of year	<u>\$ 2,768,248</u>	<u>\$ 5,290,311</u>	<u>\$ 5,300,729</u>	

See accompanying notes to the supplementary information and accountant's compilation report.

LOCKLAND LOCAL SCHOOL DISTRICT, OHIO

Notes to the Supplementary Information

Fiscal Year Ended June 30, 2019

Note A Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balances on the modified cash basis of accounting, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Schedule of Receipts, Disbursements and Changes in Fund Balances - Budget and Actual (Budgetary Basis) 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 modified cash basis are that:

Encumbrances are treated as expenditures for all funds (budget basis) rather than as an assignment of fund balance for governmental fund types (modified cash basis). There were no outstanding encumbrances at June 30, 2019.

Changes in investments are recognized on the budget basis when realized, whereas investments are adjusted to fair value at June 30, 2019 on the modified cash basis.

Certain funds accounted for as separate funds internally with legally adopted budgets (budgetary basis) do not meet the definition of special revenue funds under GASB Statement No. 54 and were reported with the General Fund (modified cash basis).

The following tables summarize the adjustments necessary to reconcile the cash basis statements and the budgetary basis schedule:

	<u>General</u>
Net change in fund balance - Cash Basis	\$ 1,157,235
Increase / (decrease):	
Fair value adjustments	(12,910)
GASB 54 fund classifications	<u>(3,110)</u>
Net change in fund balance - Budget Basis	\$ <u>1,141,215</u>