



OHIO AUDITOR OF STATE
KEITH FABER



**ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY
JUNE 30, 2018**

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OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT

Allen East Local School District
Allen County
9105 Harding Highway
Harrod, Ohio 45850

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Accounting Basis

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

Other Matters

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2019, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

June 21, 2019

Allen East Local School District
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The discussion and analysis of the Allen East 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, 2018. The intent of this discussion and analysis is to look at the School District's 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 fiscal year 2018 are as follows:

- q In total, net position increased \$1,599,433 primarily due to receipts outpacing disbursements.
- q In fiscal year 2018 the School District refunded the 2007 general obligation bonds.

Using this Annual Report

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole School District. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. For fiscal year 2018, the general fund is by far the School District's most significant fund.

Basis of Accounting

The School District has elected to present its financial statements on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net position will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Allen East Local School District
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)
(Continued)

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2018?" The statement of net position and the statement of activities answer this question.

These two statements report the School District's *net position* and *changes in net position*. This change in net position is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net position and the statement of activities, governmental activities include the School District's programs and services, including instruction, support services, extracurricular activities, food service operations and debt service.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and capital projects fund.

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting. 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 less financial resources that can be spent in the near future to finance educational programs.

Reporting the School District's Fiduciary Responsibilities

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

Allen East Local School District
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)
(Continued)

The School District as a Whole

Table 1 provides a summary of the School District's net position for fiscal year 2018 compared to 2017.

(Table 1)
Net Position – Cash Basis

	Governmental Activities	
	2018	2017
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 10,557,930	\$ 8,958,497
<i>Total Assets</i>	10,557,930	8,958,497
Net Position		
Restricted for:		
Capital Outlay	448,255	372,339
Debt Service	662,601	507,861
Permanent Funds		
Expendable	66	33
Non-expendable	2,000	2,000
Other Purposes	577,255	471,566
Unrestricted	8,867,753	7,604,698
<i>Total Net Position</i>	\$ 10,557,930	\$ 8,958,497

The net position of the governmental activities increased \$1,599,433, which represents an 18 percent increase from fiscal year 2017. This can most significantly be attributed to receipts consistently outpacing disbursements.

A portion of the School District's net position, \$1,690,177 or 16 percent represents resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net position of \$8,867,753 may be used to meet the School District's ongoing obligations.

Allen East Local School District
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)
(Continued)

Table 2 shows the changes in net position for fiscal year 2018 as compared to fiscal year 2017.

(Table 2)
Changes in Net Position – Cash Basis

	Governmental Activities	
	2018	2017
Receipts		
<i>Program Receipts</i>		
Charges for Services and Sales	\$ 1,481,885	\$ 1,474,355
Operating Grants, Contributions and Interest	1,012,880	918,751
<i>Total Program Receipts</i>	<u>2,494,765</u>	<u>2,393,106</u>
<i>General Receipts</i>		
Property Taxes	3,481,927	3,408,249
Grants and Entitlements not Restricted to Specific Programs	6,964,241	6,819,987
Proceeds from Sale of Assets	260	5,000
Proceeds of Refunding Bonds	5,404,986	0
Premium on Refunding Bonds Issued	222,053	0
Interest	142,964	66,836
Miscellaneous	45,264	70,614
<i>Total General Receipts</i>	<u>16,261,695</u>	<u>10,370,686</u>
<i>Total Receipts</i>	<u>18,756,460</u>	<u>12,763,792</u>
<i>Program Disbursements</i>		
Instruction:		
Regular	4,663,954	4,422,158
Special	955,140	805,272
Other	536,123	530,353
Support Services:		
Pupils	722,167	658,722
Instructional Staff	501,167	762,232
Board of Education	32,413	37,288
Administration	768,140	786,456
Fiscal	292,299	263,989
Business	117,338	40,748
Operation and Maintenance of Plant	1,076,538	1,118,382
Pupil Transportation	586,857	488,418
Central	0	300
Operation of Non-Instructional Services:		
Food Service Operations	463,183	475,151
Extracurricular Activities	374,246	369,348
Capital Outlay	0	194,405
Debt Service:		
Principal Retirement	13,236	125,108
Interest and Fiscal Charges	547,659	453,377
Payment to Refunded Bond Escrow Agent	5,506,567	0
<i>Total Program Disbursements</i>	<u>17,157,027</u>	<u>11,531,707</u>
<i>Change in Net Position</i>	1,599,433	1,232,085
<i>Net Position Beginning of Year</i>	8,958,497	7,726,412
<i>Net Position End of Year</i>	<u>\$ 10,557,930</u>	<u>\$ 8,958,497</u>

Allen East Local School District
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)
(Continued)

Instructional staff support services disbursements decreased \$261,065 primarily due to technology projects paid for in fiscal year 2017.

Governmental Activities

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

(Table 3)
Governmental Activities – Cash Basis

	Total Costs of Services		Net Costs of Services	
	2018	2017	2018	2017
<i>Program Disbursements</i>				
Instruction:				
Regular	\$ 4,663,954	\$ 4,422,158	\$ 3,686,819	\$ 3,426,700
Special	955,140	805,272	353,232	290,831
Other	536,123	530,353	536,123	530,353
Support Services:				
Pupils	722,167	658,722	511,170	452,217
Instructional Staff	501,167	762,232	501,167	751,421
Board of Education	32,413	37,288	32,413	37,288
Administration	768,140	786,456	768,140	784,896
Fiscal	292,299	263,989	292,299	263,989
Business	117,338	40,748	117,338	40,748
Operation and Maintenance of Plant	1,076,538	1,118,382	1,054,399	1,100,752
Pupil Transportation	586,857	488,418	578,185	484,598
Central	0	300	0	300
Operation of Non-Instructional Services:				
Food Service Operations	463,183	475,151	(1,327)	16,675
Extracurricular Activities	374,246	369,348	164,842	184,943
Capital Outlay	0	194,405	0	194,405
Debt Service:				
Principal Retirement	13,236	125,108	13,236	125,108
Interest and Fiscal Charges	547,659	453,377	547,659	453,377
Payment to Refunded Bond Escrow Agent	5,506,567	0	5,506,567	0
Total	\$ 17,157,027	\$ 11,531,707	\$ 14,662,262	\$ 9,138,601

The dependence upon tax receipts and general receipts entitlements from the state for governmental activities is apparent. Program receipts only account for 15 percent of all governmental disbursements. The community is the largest area of support for the School District students.

Allen East Local School District
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)
(Continued)

The School District's Funds

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

The general fund's fund balance increased \$425,635 in 2018. The increase in fund balance can be attributed to an increase to receipts consistently outpacing disbursements.

The capital projects' fund balance increased \$827,386 in 2018. The increase is due to transfers in made for the purpose of accumulating resources for future projects.

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.

During the course of fiscal year 2018, the School District amended its general fund budget. The School District uses site-based budgeting and budgeting systems which are designed to tightly control site budgets but provide flexibility for site management. Actual receipts of \$11,124,462 were \$219,310 higher than the final budget, as actual intergovernmental receipts and interest receipts were higher than anticipated. The final budget increased \$171,622 from the original budget.

Actual disbursements of \$9,841,183 were \$641,022 lower than the final budget. This was partially due to disbursements being fully appropriated and budgeted higher than usual. The final budgeted disbursements increased \$116,465 from the original budget.

Other financing sources and uses were \$34,975 lower than the final budget, with no significant changes from the original to final budget.

Debt Administration

The School District had the following long-term obligations outstanding at June 30, 2018 and 2017.

(Table 4)
Outstanding Debt, at June 30

	Governmental Activities	
	2018	2017
2007 Refunding Bonds - Serial, Term and Capital Appreciation Bonds	\$ 548,888	\$ 6,123,739
2017 Refunding Bonds - Serial and Capital Appreciation Bonds	5,409,170	0
<i>Total</i>	\$ 5,958,058	\$ 6,123,739

In fiscal year 2018, the School District refunded the serial and term bond components of the 2007 Refunding Bonds. For further information regarding the School District's debt, refer to Note 9 of the basic financial statements.

Allen East Local School District
Allen County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)
(Continued)

Current Issues

The School District continues to receive strong support from the residents of the School District. As the preceding information shows, the School District relies heavily on its local property taxpayers. An emergency levy was passed by the residents of the district in November 1994, with the promise that the \$330,000 annual revenue generated by a levy would provide sufficient funding for each of the next five years. The emergency levy has continually been renewed by the residents, with the most recent renewal in May of 2017. We have also had a 2.75 mill permanent improvement levy successfully renewed since the original passage in May 1989.

Real estate and personal property tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. The School District has not been on the ballot for new operating money for over 20 years.

The School District's major concern is the State Legislative approval of the biennial budget, which significantly impacts the School District. Two thirds of the school funding for the School District comes from this budget. The 2017-2019 biennial budget has flat-lined the State revenue for the School District. Management must plan carefully and prudently to provide the resources to meet student needs over the next several years as expenditures will continue to increase without a corresponding increase in revenue.

During the debt refunding in August of 2017, S&P Global Ratings has affirmed the AA- rating on the School District's unlimited general obligation bonds. The Rating Outlook is Stable. The AA- rating reflects the School District's strong, conservative financial management as evidenced by ample cash reserves, reliance on state aid and sparing use of expiring levies, which has insulated its reserves from the cyclical effects of periodic voter approvals that typify other Ohio school districts. The key rating driver is management's ability to continue current practices and maintain ample fiscal cushion given the economic downturn and fixed revenue streams.

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 any questions about this report or need additional financial information, contact Andrea Snyder, Treasurer of Allen East Local School District, 9105 Harding Highway, Harrod, OH 45850 or snydera@alleneastschool.org.

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Allen East Local School District
Allen County, Ohio
Statement of Net Position - Cash Basis
June 30, 2018

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 10,557,930
<i>Total Assets</i>	<i>10,557,930</i>
Net Position	
Restricted for:	
Capital Outlay	448,255
Debt Service	662,601
Permanent Funds	
Expendable	66
Non-expendable	2,000
Other Purposes	577,255
Unrestricted	8,867,753
<i>Total Net Position</i>	<i>\$ 10,557,930</i>

See accompanying notes to the basic financial statements.

Allen East Local School District
Allen County, Ohio
Statement of Activities - Cash Basis
For the Fiscal Year Ending June 30, 2018

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services and Sales	Operating Grants, Contributions and Interest	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$ 4,663,954	\$ 936,250	\$ 40,885	\$ (3,686,819)
Special	955,140	83,688	518,220	(353,232)
Other	536,123	0	0	(536,123)
Support Services:				
Pupils	722,167	0	210,997	(511,170)
Instructional Staff	501,167	0	0	(501,167)
Board of Education	32,413	0	0	(32,413)
Administration	768,140	0	0	(768,140)
Fiscal	292,299	0	0	(292,299)
Business	117,338	0	0	(117,338)
Operation and Maintenance of Plant	1,076,538	0	22,139	(1,054,399)
Pupil Transportation	586,857	0	8,672	(578,185)
Operation of Non-Instructional Services:				
Food Service Operations	463,183	274,619	189,891	1,327
Extracurricular Activities	374,246	187,328	22,076	(164,842)
Debt Service:				
Principal Retirement	13,236	0	0	(13,236)
Interest and Fiscal Charges	547,659	0	0	(547,659)
Payment to Refunded Bond Escrow Agent	5,506,567	0	0	(5,506,567)
Totals	<u>\$ 17,157,027</u>	<u>\$ 1,481,885</u>	<u>\$ 1,012,880</u>	<u>(14,662,262)</u>

General Receipts

Property Taxes Levied for:	
General Purposes	2,761,925
Debt Service	517,125
Capital Outlay	158,035
Classroom Facilities Maintenance	44,842
Grants and Entitlements not Restricted to Specific Programs	6,964,241
Proceeds from Sale of Assets	260
Proceeds of Refunding Bonds	5,404,986
Premium on Refunding Bonds Issued	222,053
Interest	142,964
Miscellaneous	45,264
Total General Receipts	<u>16,261,695</u>
Change in Net Position	1,599,433
Net Position Beginning of Year	<u>8,958,497</u>
Net Position End of Year	<u>\$ 10,557,930</u>

See accompanying notes to the basic financial statements.

Allen East Local School District
Allen County, Ohio
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2018

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 7,248,079	\$ 1,627,386	\$ 1,682,465	\$ 10,557,930
<i>Total Assets</i>	<u>\$ 7,248,079</u>	<u>\$ 1,627,386</u>	<u>\$ 1,682,465</u>	<u>\$ 10,557,930</u>
Fund Balances				
Nonspendable	\$ 1,013	\$ 0	\$ 2,000	\$ 3,013
Restricted	0	0	1,688,177	1,688,177
Committed	184,479	0	0	184,479
Assigned	361,893	1,627,386	0	1,989,279
Unassigned	6,700,694	0	(7,712)	6,692,982
<i>Total Fund Balances</i>	<u>\$ 7,248,079</u>	<u>\$ 1,627,386</u>	<u>\$ 1,682,465</u>	<u>\$ 10,557,930</u>

See accompanying notes to the basic financial statements.

Allen East Local School District
Allen County, Ohio
Statement of Receipts, Disbursements and Changes
in Fund Balances - Cash Basis - Governmental Funds
For the Fiscal Year Ending June 30, 2018

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Property and Other Local Taxes	\$ 2,761,925	\$ 0	\$ 720,002	\$ 3,481,927
Intergovernmental	7,190,404	0	757,006	7,947,410
Investment Income	142,600	0	363	142,963
Tuition and Fees	1,019,832	0	0	1,019,832
Rent	7,145	0	3,200	10,345
Extracurricular Activities	22,848	0	157,443	180,291
Gifts and Donations	7,635	0	18,876	26,511
Charges for Services	0	0	274,619	274,619
Miscellaneous	36,109	0	9,154	45,263
<i>Total Receipts</i>	<u>11,188,498</u>	<u>0</u>	<u>1,940,663</u>	<u>13,129,161</u>
Disbursements				
Current:				
Instruction:				
Regular	4,617,454	0	46,500	4,663,954
Special	807,257	0	147,883	955,140
Other	536,123	0	0	536,123
Support Services:				
Pupils	512,401	0	209,766	722,167
Instructional Staff	332,232	163,298	5,637	501,167
Board of Education	32,413	0	0	32,413
Administration	768,140	0	0	768,140
Fiscal	278,361	0	13,938	292,299
Business	117,338	0	0	117,338
Operation and Maintenance of Plant	1,047,992	9,316	19,230	1,076,538
Pupil Transportation	501,142	0	85,715	586,857
Extracurricular Activities	209,083	0	165,163	374,246
Operation of Non-Instructional Services:				
Food Service Operations	3,187	0	459,996	463,183
Debt Service:				
Principal Retirement	0	0	13,236	13,236
Interest and Fiscal Charges	0	0	547,659	547,659
<i>Total Disbursements</i>	<u>9,763,123</u>	<u>172,614</u>	<u>1,714,723</u>	<u>11,650,460</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,425,375</u>	<u>(172,614)</u>	<u>225,940</u>	<u>1,478,701</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Assets	260	0	0	260
Proceeds of Refunding Bonds Issued	0	0	5,404,986	5,404,986
Premium on Refunding Bonds Issued	0	0	222,053	222,053
Payment to Refunded Bond Escrow Agent	0	0	(5,506,567)	(5,506,567)
Transfers In	0	1,000,000	0	1,000,000
Transfers Out	(1,000,000)	0	0	(1,000,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(999,740)</u>	<u>1,000,000</u>	<u>120,472</u>	<u>120,732</u>
<i>Net Change in Fund Balances</i>	425,635	827,386	346,412	1,599,433
<i>Fund Balances Beginning of Year</i>	<u>6,822,444</u>	<u>800,000</u>	<u>1,336,053</u>	<u>8,958,497</u>
<i>Fund Balances End of Year</i>	<u>\$ 7,248,079</u>	<u>\$ 1,627,386</u>	<u>\$ 1,682,465</u>	<u>\$ 10,557,930</u>

See accompanying notes to the basic financial statements.

Allen East Local School District
Allen County, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ending June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Receipts				
Property and Other Local Taxes	\$ 2,699,252	\$ 2,713,464	\$ 2,761,925	\$ 48,461
Intergovernmental	7,014,633	7,089,947	7,190,404	100,457
Interest	42,000	71,616	142,600	70,984
Tuition and Fees	973,645	1,020,125	1,019,832	(293)
Rent	2,000	2,000	106	(1,894)
Gifts and Donations	0	1,000	1,607	607
Miscellaneous	2,000	7,000	7,988	988
<i>Total Receipts</i>	<u>10,733,530</u>	<u>10,905,152</u>	<u>11,124,462</u>	<u>219,310</u>
Disbursements				
Current:				
Instruction:				
Regular	4,809,433	4,768,698	4,626,730	141,968
Special	722,525	904,525	809,415	95,110
Other	545,000	540,000	536,123	3,877
Support Services:				
Pupils	514,259	514,259	464,345	49,914
Instructional Staff	382,040	371,540	332,283	39,257
Board of Education	65,969	65,969	32,413	33,556
Administration	840,435	820,435	746,551	73,884
Fiscal	286,865	308,985	279,236	29,749
Business	135,580	135,580	116,978	18,602
Operation and Maintenance of Plant	1,284,129	1,255,209	1,173,740	81,469
Pupil Transportation	540,305	557,805	521,142	36,663
Central	1,000	1,000	0	1,000
Extracurricular Activities	238,200	238,200	202,227	35,973
<i>Total Disbursements</i>	<u>10,365,740</u>	<u>10,482,205</u>	<u>9,841,183</u>	<u>641,022</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>367,790</u>	<u>422,947</u>	<u>1,283,279</u>	<u>860,332</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Assets	0	0	260	260
Refund of Prior Year Expenditures	3,000	16,500	20,159	3,659
Refund of Prior Year Receipts	0	(3,900)	(3,844)	56
Transfers In	25,064	32,685	0	(32,685)
Transfers Out	(1,125,064)	(1,117,685)	(1,054,000)	63,685
<i>Total Other Financing Sources (Uses)</i>	<u>(1,097,000)</u>	<u>(1,072,400)</u>	<u>(1,037,425)</u>	<u>34,975</u>
<i>Net Change in Fund Balance</i>	(729,210)	(649,453)	245,854	895,307
<i>Fund Balance Beginning of Year</i>	6,525,264	6,525,264	6,525,264	0
Prior Year Encumbrances Appropriated	79,821	79,821	79,821	0
<i>Fund Balance End of Year</i>	<u>\$ 5,875,875</u>	<u>\$ 5,955,632</u>	<u>\$ 6,850,939</u>	<u>\$ 895,307</u>

See accompanying notes to the basic financial statements.

Allen East Local School District
Allen County, Ohio
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Funds
June 30, 2018

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 70,869	\$ 13,352
<i>Total Assets</i>	70,869	\$ 13,352
 Net Position		
Held for Students	0	\$ 12,760
Held in Trust for Scholarships	70,869	0
Held for Staff	0	592
<i>Total Net Position</i>	\$ 70,869	\$ 13,352

See accompanying notes to the basic financial statements.

Allen East Local School District
Allen County, Ohio
Statement of Change in Fiduciary Net Position - Cash Basis
Private Purpose Trust Fund
For the Fiscal Year Ending June 30, 2018

	<u>Scholarship</u>
Additions	
Gifts and Contributions	\$ 1,096
Interest	<u>1,093</u>
<i>Total Additions</i>	<u>2,189</u>
Deductions	
Payments in Accordance with Trust Agreements	<u>1,500</u>
<i>Change in Net Position</i>	689
<i>Net Position Beginning of Year</i>	<u>70,180</u>
<i>Net Position End of Year</i>	<u><u>\$ 70,869</u></u>

See accompanying notes to the basic financial statements.

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Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District consists of three small communities and surrounding rural areas within Allen County. The School District is staffed by non-certificated employees and certificated full-time teaching personnel who provide services to students and other community members.

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

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

The School District is associated with two organizations which are defined as jointly governed organizations and three group purchasing pools. These organizations include the Northwest Ohio Area Computer Services Cooperative, the Apollo Career Center, the Ohio School Boards Association Workers' Compensation Group Rating Plan/OASBO, the Council of Allen County Schools Health Benefits Consortium and the Ohio School Plan. These organizations are presented in Notes 12 and 13 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Sections 117-2-03(B) to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP), the School District chooses to prepare its financial statements and notes in accordance with the cash accounting basis. This basis of accounting is similar to the cash receipts and disbursements 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.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

Budgetary presentations report budgetary disbursements when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the government-wide and fund financial statements versus budgetary disbursements result from encumbrances outstanding at the end of the fiscal year.

B. Basis of Presentation - Fund Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and statement of activities display information about the School District as a whole. The statements include all funds of the School District except for fiduciary funds.

The statement of net position presents the financial condition of the governmental activities of the School District at year end. The statement of activities presents a comparison between direct disbursements and program receipts for each program or function of the School District's governmental activities. Direct disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the School District with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing or draws from the general resources of the School District. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange 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. The focus of governmental fund financial statement is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

Fund financial statements of the School District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets or fund equity, receipts and disbursements. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the School District or meets the following criteria:

1. Total assets, receipts or disbursements of that individual governmental fund is at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, receipts or disbursements of that individual governmental fund is at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

The funds of the financial reporting entity are described below:

Governmental Funds

Governmental funds are those through which all governmental functions of the School District are financed. The following are the School District's major governmental funds:

General Fund	The General Fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the School District for any purpose provided it is expended or transferred according to the laws of Ohio.
Capital Projects Fund	The Capital Projects Fund accounts for financial resources accumulated for the acquisition, construction, or improvement of fixed assets of the School District.

The other governmental funds of the School District account for grants and other resources in which the School District is bound to observe constraints imposed upon the use of the resources.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. The School District's fiduciary funds include private purpose trust funds and agency funds. The School District's private purpose trust fund accounts for scholarships. Agency funds are custodial in nature and do not involve measurement of results of operations. The School District's agency funds include various student-managed activities and staff-managed activities.

C. Budgetary Process

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 Report, all of which are prepared on the budgetary basis of accounting for the original appropriations and at the fund/object level for subsequent modifications. The Certificate of Estimated Resources and the Appropriations Resolution Report are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level for the original appropriations and at the fund/object level for subsequent modifications. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Advances in and advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed disbursements 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.

The Allen County Budget Commission has waived the requirement that school districts adopt and submit a tax budget. In lieu of the tax budget, school districts are required to submit the five-year forecast, the current bond estimated fund balance, and bond amortization schedules.

Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected receipt of each fund. Prior to June 30, the School District must revise its budget so that total contemplated disbursements from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in receipt are identified by the School District Treasurer.

Appropriations

Upon receipt from the County Auditor of an Amended Certificate of Estimated Resources based on final assessed values and tax rates or a certificate saying a new certificate is not necessary, the annual Appropriation Resolution Report must be legally enacted by the Board of Education at the fund level of disbursements, which is the legal level of budgetary control for the original appropriations. Subsequent modifications are approved at the fund/object level. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary disbursements of the School District. The Appropriation Resolution Report, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of disbursements and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of fund appropriation must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources.

Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of disbursements on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Disbursements plus encumbrances may not legally exceed appropriations. Encumbrances outstanding at fiscal year-end are reported as restricted, committed or assigned fund balance for subsequent year disbursements of governmental funds.

Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not re-appropriated.

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled in bank accounts. Monies for all funds are maintained in accounts or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records.

During fiscal year 2018, the School District invested in STAR Ohio, negotiable certificates of deposit, a money market fund, and a government agency mutual fund. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants*. The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$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.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2018 was \$142,600, which includes \$43,730 assigned from other School District funds.

For purposes of financial reporting, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months which were not purchased from the cash management pool are reported as investments.

Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

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

E. Property, Plant and Equipment

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

F. Compensated Absences

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

G. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental funds is not reported as a liability. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

H. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received. Federal and State reimbursement type grants for the acquisition or construction of capital assets are recorded as receipts when the grant money is received.

I. Interfund Transactions

During the course of normal operations, the School District may have numerous transactions between funds. The most common include:

1. Transfers of resources from one fund to another fund through which resources to be expended are recorded as transfers.
2. Reimbursements from one fund to another are treated as disbursements in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

J. Equity Classifications

GOVERNMENT-WIDE STATEMENTS

Equity is classified as net position and is displayed in separate components:

Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

1. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation adopted by the school district. Net position restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes. At June 30, 2018, there was no amount restricted by enabling legislation.
2. Unrestricted net position – All other net position that do not meet the definition of “restricted.”

The School District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net position is available.

FUND FINANCIAL STATEMENTS

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

1. Non-spendable - The non-spendable classification includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.
2. 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.
3. Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
4. Assigned - Amounts in the assigned classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.

Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

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

K. Pensions and 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 respective retirement plans. For this purpose, benefit payments (including refunds of member contributions) are recognized when due and payable in accordance with the benefit terms. The retirement plans report investments at fair value.

L. Implementation of New Accounting Principles

For the fiscal year ended June 30, 2018, the School District has (to the extent it applies to the cash basis of accounting) implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishments*.

GASB Statement No. 75 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. See Note 7 for further information.

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the School District.

GASB Statement No. 85 establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits.

Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the School District.

GASB Statement No. 86 addresses the reporting and disclosure requirements of certain debt extinguishments including in-substance defeasance transactions and prepaid insurance associated with debt that is extinguished. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the School District.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

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

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

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, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

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

1. United States treasury notes, bills, bonds, or other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

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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) of this section 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 in an amount not to exceed 40 percent of the interim moneys available for investment at any one time;
 8. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts.

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

Deposits

Custodial credit risk is the risk that in the event of bank failure, the School District's deposits may not be returned to it. At fiscal year end, the carrying amount of the School District's deposits was \$299,496 and the bank balance was \$517,060, of which \$500,000 was covered by federal depository insurance.

Investments

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

<u>Investment Type</u>	<u>Cost</u>	<u>Maturities</u>		<u>% of Total Investments</u>
		<u>< 1 year</u>	<u>1-3 years</u>	
Negotiable Certificates of Deposit	\$ 6,712,000	\$ 994,000	\$ 5,718,000	64.90%
STAR Ohio	3,467,227	3,467,227	0	33.52%
Mutual Fund	31,884	31,884	0	0.31%
Money Market	131,544	131,544	0	1.27%
	<u>\$ 10,342,655</u>	<u>\$ 4,624,655</u>	<u>\$ 5,718,000</u>	<u>100.00%</u>

Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

Interest Rate Risk

The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the School District.

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 has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Credit Risk

The School District has no investment policy dealing with credit risk beyond the requirements in state statutes. Ohio law requires that Government & Agency Mutual Funds and STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the mutual funds be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. Government & Agency Mutual Funds and STAR Ohio carry a credit rating of AAAM by S&P Global Ratings at June 30, 2018. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2018, is 49 days and carries a rating of AAAM by S&P Global Ratings.

Concentration of Credit Risk

The School District places no limit on the amount the district may invest in any one issuer, however State statute limits investments in commercial paper and bankers' acceptances to 40 percent of the interim monies available for investment at any one time. The table above includes the percentage of total of each investment type held by the School District at June 30, 2018.

NOTE 4 - PROPERTY TAXES

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2018 represents collections of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed value listed as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2018 represents collections of calendar year 2017 taxes. Public utility real and tangible personal property taxes received in calendar year 2018 became a lien December 31, 2016, were levied after April 1, 2017 and are collected in 2018 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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For the Fiscal Year Ended June 30, 2018
(Continued)

The School District receives property taxes from Allen County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2018, are available to finance fiscal year 2018 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

	<u>2017 Second- Half Collections</u>		<u>2018 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Real Estate	\$ 125,838,100	93%	\$ 127,050,060	94%
Public Utility Personal Property	9,428,660	7%	8,389,560	6%
Total	<u>\$ 135,266,760</u>	<u>100%</u>	<u>\$ 135,439,620</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$ 37.03		\$ 37.04	

NOTE 5 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2018, the School District contracted with Ohio School Plan/Hylant Group (Note 13) for property, general liability, professional liability, and automobile insurance. Settled claims have not exceeded the commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

B. Workers' Compensation

For fiscal year 2018, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program/OASBO ("GRP"), an insurance purchasing pool (Note 13). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its worker's compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant share equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management provides administrative, cost control, and actuarial services to the GRP.

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Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

C. Health Care Benefits

The School District participates in the Council of Allen County Schools Health Benefits Consortium (the “Consortium”), a public entity shared risk pool consisting of the school districts within Allen County. The School District pays monthly premiums to the Consortium for employee medical and dental benefits. The Consortium is responsible for the management and operations of the program. Upon withdrawal from the Consortium, a participant is responsible for the payment of all Consortium liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal. This consortium is administered by Medical Mutual. In addition to the health benefits provided to employees under the Council of Allen County Schools Health Benefits Consortium disclosed in Note 13, the School District offers vision insurance, life insurance benefits and a cafeteria 125 flexible plan to all eligible employees as an option under this consortium. The vision insurance is administered by Fidelity Securities. The life insurance is administered by Dearborn National Life Insurance. The cafeteria 125 plan is administered by American Fidelity.

NOTE 6 – 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 obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

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

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.

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Allen County, Ohio
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(Continued)

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first 30 years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

When a benefit recipient has received benefits for 12 months, an annual COLA is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a three percent simple annual COLA. For those retiring after January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at three percent.

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

The School District’s contractually required contributions to SERS was \$186,144 for fiscal year 2018.

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Allen County, Ohio
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For the Fiscal Year Ended June 30, 2018
(Continued)

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 was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, plan members were required to contribute 14 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contributions to STRS was \$597,024 for fiscal year 2018.

Net Pension Liability

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The School District's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 2,114,128	\$ 8,724,278	\$ 10,838,406
Proportion of the Net Pension Liability	0.03538420%	0.03672574%	

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 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.

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Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

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

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

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

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the most recent actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

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

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

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(Continued)

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's Proportionate Share of the Net Pension Liability	\$ 2,933,860	\$ 2,114,128	\$ 1,427,435

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments	0.00 percent effective July 1, 2017

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

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

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For the Fiscal Year Ended June 30, 2018
(Continued)

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>	

*The target allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

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

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

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 as of June 30, 2017, calculated using the current period discount rate assumption of 7.45 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

	<u>1% Decrease (6.45%)</u>	<u>Current Discount Rate (7.45%)</u>	<u>1% Increase (8.45%)</u>
School District's Proportionate Share of the Net Pension Liability	\$ 12,505,956	\$ 8,724,278	\$ 5,538,782

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For the Fiscal Year Ended June 30, 2018
(Continued)

Assumption Changes since the Prior Measurement Date

The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Benefit Term Changes since the Prior Measurement Date

Effective July 1, 2017, the COLA was reduced to zero.

NOTE 7 – DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

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

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

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

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Allen County, Ohio
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For the Fiscal Year Ended June 30, 2018
(Continued)

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the School District's surcharge obligation was \$18,135.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$24,783 for fiscal year 2018.

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Allen County, Ohio
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(Continued)

Plan Description - State Teachers Retirement System (STRS)

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

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

Net OPEB Liability

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability 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	\$ 963,403	\$ 1,432,903	\$ 2,396,306
Proportion of the Net OPEB Liability	0.03589780%	0.03672574%	

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.

Allen East Local School District
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(Continued)

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

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

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

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

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

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

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

Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

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

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

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

	<u>1% Decrease (2.63%)</u>	<u>Current Discount Rate (3.63%)</u>	<u>1% Increase (4.63%)</u>
School District's Proportionate Share of the Net OPEB Liability	\$ 1,163,431	\$ 963,403	\$ 804,929
		<u>Current Trend Rate</u>	<u>1% Increase</u>
School District's Proportionate Share of the Net OPEB Liability	\$ 781,729	\$ 963,403	\$ 1,203,851

Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

Actuarial Assumptions - STRS

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

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments (COLA)	0.00 percent effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6.00 percent to 11.00 percent, initial, 4.50 percent ultimate

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

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

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

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

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

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

Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

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

*The target allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

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

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

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

Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School District's Proportionate Share of the Net OPEB Liability	\$ 1,923,649	\$ 1,432,903	\$ 1,045,053
	1% Decrease	Current Trend Rate	1% Increase
School District's Proportionate Share of the Net OPEB Liability	\$ 995,519	\$ 1,432,903	\$ 2,008,551

NOTE 8 - EMPLOYEE BENEFITS - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Administrators and certain classified employees earn ten to twenty-two days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for 12-month employees and certified personnel, up to 210 days for ten-month classified personnel, and up to 190 days for 9-month classified personnel. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit up to a maximum of 46 days.

NOTE 9 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2018 were as follows:

	Balance Outstanding 6/30/2017	Additions	Reductions	Balance Outstanding 6/30/2018	Due Within One Year
<u>General Obligation Bonds</u>					
2007 Bond Issue					
Current Interest	\$ 5,405,000	\$ 0	\$ 5,405,000	\$ 0	\$ 0
Capital Appreciation	29,996	0	13,236	16,760	9,704
Accretion of Interest	688,743	190,149	346,764	532,128	317,688
2017 Bond Issue					
Current Interest	0	3,375,000	0	3,375,000	40,000
Capital Appreciation	0	2,029,986	0	2,029,986	0
Accretion of Interest	0	4,184	0	4,184	0
Total General Obligation Bonds	\$ 6,123,739	\$ 5,599,319	\$ 5,765,000	\$ 5,958,058	\$ 367,392

Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

2007 Various Purpose General Obligation Refunding Bonds - In April 2007, the School District issued \$6,124,996 in voted general obligation bonds to refund the 2004 issue for the acquisition, construction, and improvement to buildings and structures at a net premium of \$566,368. Current interest serial bonds and current interest term bonds in the amount of \$1,445,000 and \$4,650,000, respectively, were issued. Capital appreciation bonds were issued in the amount of \$29,996. The bonds are being retired from the Bond Retirement debt service fund. The current interest term bonds with original maturities of December 1, 2028-2031, in the amount of \$5,405,000, were refunded in August 2017.

The capital appreciation bonds will mature in fiscal years 2018 through 2020 and are not subject to redemption prior to maturity. Interest rates are 33.76-33.86 percent. The maturity amount of the bonds is \$1,075,000.

2017 Various Purpose General Obligation Refunding Bonds - In August 2017, the School District issued \$5,404,986 in voted general obligation bonds to refund the 2007 various purpose general obligation refunding bonds at a premium of \$222,053. Current interest serial bonds in the amount of \$3,375,000 were issued. Capital appreciation bonds were issued in the amount of \$2,029,986. The bonds are being retired from the Bond Retirement debt service fund.

The current interest serial bonds will mature in fiscal years 2019, 2020 and 2026-2032 on each December 1 with an interest rate of 2.00 - 4.00 percent.

The capital appreciation bonds will mature in fiscal years 2021 through 2025 and are not subject to redemption prior to maturity. Interest rates are 1.062 percent. The maturity amount of the bonds is \$2,145,000.

Future principal and interest requirements as of June 30, 2018 are as follows:

Fiscal Year Ending June 30,	2007 Bond Issue	2017 Bond Issue	Interest/ Accretion	Total
2019	\$ 9,704	\$ 40,000	\$ 466,040	\$ 515,744
2020	7,056	70,000	462,587	539,643
2021	0	415,586	128,357	543,943
2022	0	411,209	132,735	543,944
2023	0	406,879	137,065	543,944
2024-2028	0	2,091,312	584,591	2,675,903
2029-2032	0	1,970,000	161,400	2,131,400
Total	<u>\$ 16,760</u>	<u>\$ 5,404,986</u>	<u>\$2,072,775</u>	<u>\$7,494,521</u>

Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

NOTE 10 - STATUTORY RESERVES

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

During the fiscal year ended June 30, 2018, the set-aside activity was as follows:

	Capital Maintenance Reserve
Set-aside cash balance as of June 30, 2017	\$ 0
Current year set-aside requirement	203,274
Current year qualifying disbursements	(324,821)
Total	\$ (121,547)
Balance carried forward to fiscal year 2019	\$ 0
Set-aside restricted balance as of June 30, 2018	\$ 0

Although the School District had qualifying disbursements during the fiscal year that reduced the set-aside amount below zero, this amount may not be used to reduce the set aside requirements of future years. This negative balance is therefore not presented as being carried forward to future fiscal years.

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Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

NOTE 11 – FUND BALANCE

Fund balance is classified as non-spendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Nonspendable:				
Unclaimed Money	\$ 1,013	\$ 0	\$ 0	\$ 1,013
Library Endowment	0	0	2,000	2,000
Total Nonspendable	<u>1,013</u>	<u>0</u>	<u>2,000</u>	<u>3,013</u>
Restricted for:				
Permanent Improvements	0	0	448,256	448,256
Debt Service	0	0	662,601	662,601
Extracurricular Activities	0	0	103,497	103,497
Food Service Operations	0	0	21,130	21,130
Classroom Maintenance	0	0	452,628	452,628
Other Purposes	0	0	65	65
Total Restricted	<u>0</u>	<u>0</u>	<u>1,688,177</u>	<u>1,688,177</u>
Committed:				
Severance	184,479	0	0	184,479
Total Committed	<u>184,479</u>	<u>0</u>	<u>0</u>	<u>184,479</u>
Assigned for:				
Encumbrances				
Instruction	15,277	0	0	15,277
Support Services	187,674	0	0	187,674
Capital Outlay	0	1,627,386	0	1,627,386
Subsequent Year Appropriations	158,942	0	0	158,942
Total Assigned	<u>361,893</u>	<u>1,627,386</u>	<u>0</u>	<u>1,989,279</u>
Unassigned	<u>6,700,694</u>	<u>0</u>	<u>(7,712) *</u>	<u>6,692,982</u>
Total Fund Balance	<u>\$ 7,248,079</u>	<u>\$ 1,627,386</u>	<u>\$ 1,682,465</u>	<u>\$ 10,557,930</u>

*Unassigned fund balance due to deficit fund balance in the Title I fund.

Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS

Northwest Ohio Area Computer Services Cooperative - The Northwest Ohio Area Computer Services Cooperative (“NOACSC”) is a jointly governed organization among fifty-five school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. Each of the governments of these schools supports NOACSC based on a per pupil charge dependent on the software package utilized.

The NOACSC Assembly consists of a representative from each participating school district and the superintendent from the fiscal agent. The Board of Directors consists of the superintendent from the fiscal agent and two Assembly members from each county in which participating school districts are located. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Ray Burden, Executive Director, 4277 East Road, Elida, Ohio 45807.

Apollo Career Center - The Apollo Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school district’s elected boards, and it possesses its own budgeting and taxing authority. To obtain financial information write to the Apollo Career Center, Maria Rellinger, Treasurer, 3325 Shawnee Road, Lima, Ohio 45806.

NOTE 13 - GROUP PURCHASING POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan/OASBO - The School District participates in a group rating plan (“GRP”) for workers' compensation as established under Ohio Revised Code Section 4123.29. The Group Rating Plan was established through the Ohio School Boards Association/OASBO as a group insurance purchasing pool. The GRP's business and affairs are conducted by a twenty-five member Board of Directors consisting of two representatives from each county elected by a majority vote of all charter member schools within each county plus one representative from the fiscal agency A-site. Each year, the participating districts pay an enrollment fee to cover the costs of administering the program.

Council of Allen County Schools Health Benefits Consortium - The School District participates in the Council of Allen County Schools Health Benefits Consortium (the “Consortium”), a public entity shared risk pool consisting of the school districts within Allen County and the Allen County Educational Service Center. The Consortium is organized as a Voluntary Employee Benefit Association under Section 501(c) (9) of the Internal Receipt Code and provides medical, dental, vision, & life insurance benefits to the employees of the participating school districts. Each participating school district’s superintendent is appointed to a Board of Directors which advises the Trustee, Allen County Educational Service Center, concerning aspects of the administration of the Consortium.

Each school district decides which plans offered by the Board of Directors will be extended to its employees. Participation in the Consortium is by written application subject to acceptance by the Board of Directors and payment of the monthly premiums. Financial information can be obtained from Craig Kupferberg, Chairman, 1920 Slabtown Rd., Lima, Ohio 45801.

Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

Ohio School Plan – The School District participates in the Ohio School Plan (the “Plan”), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated, nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan’s business and affairs are conducted by a fifteen member board consisting of superintendents, treasurers, a member of the Stolly Insurance Group, and a member of the Hylant Group, Inc. The Hylant Group, Inc., is the Plan’s administrator and is responsible for processing claims. Stolly Insurance Group serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from the Stolly Insurance Group, 1730 Allentown Road, Lima, OH 45805.

NOTE 14 - LEASE

The School District is obligated under an operating lease agreement with Perry Pro-Tech Corporation for copiers. This agreement does not give rise to property rights. The lease is on a per-print basis and began in July 2017. There were lease payments of \$26,412 made to Perry Pro-Tech Corporation during fiscal year 2018. Monthly payments are made from the general fund.

NOTE 15 – CONTINGENCIES AND SIGNIFICANT COMMITMENTS

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. In the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2018.

B. Litigation

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

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, ODE has finalized the impact of enrollment adjustments to the June 30, 2018, foundation funding for the School District. As a result of reviews performed in fiscal year 2019, the School District received an additional \$1,441 from ODE. This amount has not been included in the financial statements.

Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

D. Encumbrance Commitments

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

<u>Fund</u>	<u>Amount</u>
General	\$ 172,154
Capital Projects	110,895
Nonmajor Governmental	130,928
	<u>\$ 413,977</u>

E. Contractual Commitments

<u>Project</u>	<u>Contract</u>		
	<u>Contract</u>	<u>Expended</u>	<u>Remaining</u>
Athletic Building Upgrade	\$ 280,523	\$ 222,970	\$ 57,553
LED Light Project	48,000	0	48,000
Boiler Upgrade	31,584	0	31,584
	<u>\$ 360,107</u>	<u>\$ 222,970</u>	<u>\$ 137,137</u>

Based on timing of when contracts are encumbered, contractual commitments identified above may or may not be included in the outstanding encumbrance commitments previously disclosed in this note.

NOTE 16 – COMPLIANCE

Ohio Administrative Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. For fiscal year 2018, the School District prepared its financial report on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This financial report omits assets and deferred outflows, liabilities and deferred inflows, fund equities and disclosures that, while material, cannot be determined at this time.

NOTE 17 – BUDGETARY BASIS OF ACCOUNTING

The statement of receipts, disbursements and changes in fund balance - budget and actual (budget basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the cash basis are that:

- (a) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of a disbursement rather than as assigned fund balance (cash basis); and,
- (b) Some funds are included in the general fund (cash basis), but have separate legally adopted budgets (budget basis).

Allen East Local School District
Allen County, Ohio
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2018
(Continued)

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

Net Change in Fund Balance	
	General Fund
Cash basis	\$ 425,635
Funds budgeted elsewhere **	(7,626)
Adjustment for encumbrances	(172,155)
Budget basis	\$245,854

** As part of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a cash basis. This includes the uniform school supplies, band horn rental, severance, unclaimed monies and public student support funds.

NOTE 18 – INTERFUND TRANSACTIONS

During the fiscal year, the general fund transferred \$1,000,000 to the capital projects fund for the purpose of accumulating resources for the acquisition, construction, or improvement of capital assets over the next ten years.

OHIO AUDITOR OF STATE KEITH FABER



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

Allen East Local School District
Allen County
9105 Harding Highway
Harrod, Ohio 45850

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allen East Local School District, Allen County, (the School District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon June 21, 2019, wherein we noted the School District uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

School District's Response to Findings

The School District's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not subject the School District's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

June 21, 2019

ALLEN EAST LOCAL SCHOOL DISTRICT
ALLEN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2018

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

FINDING NUMBER 2018-001

NONCOMPLIANCE

Ohio Rev. Code § 117.38 provides, in part, that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Admin. Code § 117-2-03 further clarifies the requirements of Ohio Rev. Code § 117.38.

Ohio Admin. Code § 117-2-03(B) requires, in part, all school districts to file annual financial reports which are prepared using generally accepted accounting principles (GAAP).

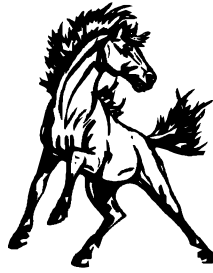
The School District prepared its financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP for fiscal year 2018. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumed material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the School District's ability to evaluate and monitor the overall financial condition of the School District.

The School District should prepare its financial statements in accordance with generally accepted accounting principles to provide users with more complete and meaningful financial statements.

Officials' Response: The School District has made the decision to report on the cash basis of accounting for financial purposes and plans to continue reporting on the cash basis of accounting for future financial statements.

Allen East Local Schools

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Mel Rentschler, Superintendent
Andrea Snyder, Treasurer/CFO
Heather Patterson, Elementary Principal
Jarrold Wehri, Middle School Principal
Keith Baumgartner, High School Principal

ALLEN EAST LOCAL SCHOOL DISTRICT ALLEN COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS JUNE 30, 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001	Significant Deficiency - Unresolved variances within payroll bank to book reconciliations.	Fully Corrected	The School District has historically had a variance of \$3,844.48 in the zero-balance payroll account. This error has been fixed in April 2018.
2017-002	Ohio Rev. Code §117.38 and Ohio Admin. Code §117-2-03 (B) – Failure to file financial statements in accordance with generally accepted accounting principles.	Not Corrected	The School District acknowledges this requirement but will continue to report on the cash basis in order to save resources for the District. This comment was first reported in the audit for fiscal year ended June 30, 2004.

OHIO AUDITOR OF STATE KEITH FABER



ALLEN EAST LOCAL SCHOOL DISTRICT

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 16, 2019**