

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
(AUDITED)**

*FOR THE FISCAL YEAR ENDED
JUNE 30, 2018*

OHIO AUDITOR OF STATE KEITH FABER



Board of Education
Strasburg-Franklin Local School District
140 North Bodmer Avenue
Strasburg, Ohio 44680

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

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

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

Keith Faber
Auditor of State
Columbus, Ohio

February 20, 2019

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**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Strasburg-Franklin Local School District
Tuscarawas County
140 North Bodmer Avenue
Strasburg, Ohio 44680

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Strasburg-Franklin Local School District, Tuscarawas County, Ohio, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Strasburg-Franklin Local School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2018, on our consideration of the Strasburg-Franklin Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Strasburg-Franklin Local School District's internal control over financial reporting and compliance.



Julian & Grube, Inc.
December 11, 2018

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

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

Financial Highlights

Key financial highlights for 2018 are as follows:

- The District's net position increased \$2,803,800 or 56.03 percent from the restated 2017 net position.
- Revenues for governmental activities totaled \$7,362,953 in fiscal year 2018. Of this total, \$6,116,157 or 83.07 percent consisted of general revenues while program revenues accounted for the balance of \$1,246,796 or 16.93 percent.

Using these Basic Financial Statements

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

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

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains all the funds used by the District to provide programs and activities, the view of the District as a whole considers all financial transactions and asks the question, "How did we do financially during 2018?" The Statement of Net Position and the Statement of Activities answers this question. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net position and changes in net position. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's performance, demographic and socioeconomic factors and willingness of the community to support the District. On the other hand, financial factors may include the District's financial position, liquidity and solvency, fiscal capacity and risk and exposure.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

In the statement of net position and the statement of activities, the District is classified into governmental activities. All of the District's non-fiduciary programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, operation of non-instructional services and extracurricular activities.

The District's statement of net position and statement of activities can be found on pages 14-15 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The District's major fund is described on page 11. Fund financial statements provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental fund is the general fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 16-20 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 21 and 22. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-63 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability. The required supplementary information can be found on pages 65 through 78 of this report.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

The District as a Whole

The statement of net position provides the perspective of the District as a whole. The following table provides a summary of the District's net position for fiscal years 2018 and 2017. The net position at June 30, 2017 has been restated as described in Note 3.A.

	Net Position	
	Governmental Activities <u>2018</u>	Restated Governmental Activities <u>2017</u>
<u>Assets</u>		
Current and other assets	\$ 8,486,421	\$ 7,800,435
Capital assets, net	<u>14,187,550</u>	<u>14,775,870</u>
Total assets	<u>22,673,971</u>	<u>22,576,305</u>
<u>Deferred outflows of resources</u>		
Deferred Charge on Refunding	448,820	479,952
Pensions	1,969,304	1,763,284
OPEB	<u>59,370</u>	<u>9,302</u>
Total deferred outflows of resources	<u>2,477,494</u>	<u>2,252,538</u>
<u>Liabilities</u>		
Current liabilities	772,662	643,641
Long-term liabilities:		
Due within one year	310,226	308,708
Due in more than one year:		
Net pension liability	5,082,768	5,374,754
Net OPEB liability	<u>6,165,705</u>	<u>8,792,926</u>
	<u>1,325,243</u>	<u>1,740,426</u>
Total liabilities	<u>13,656,604</u>	<u>16,860,455</u>
<u>Deferred inflows of resources</u>		
Property taxes	2,843,725	2,671,875
Pensions	631,611	292,719
OPEB	<u>211,931</u>	<u>-</u>
Total deferred inflows of resources	<u>3,687,267</u>	<u>2,964,594</u>
<u>Net position</u>		
Net investment in capital assets	9,885,163	10,232,651
Restricted	1,411,435	1,459,887
Unrestricted (deficit)	<u>(3,489,004)</u>	<u>(6,688,744)</u>
Total net position	<u>\$ 7,807,594</u>	<u>\$ 5,003,794</u>

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

The District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

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

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

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

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

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

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

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

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

As a result of implementing GASB 75, the District is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from \$6,734,918 to \$5,003,794.

The vast majority of revenue supporting all governmental activities is general revenue. General revenue totaled \$6,116,157 or 83.07 percent of the total revenue. The most significant portion of the general revenue is local property tax and State support. The remaining amount of revenue received was in the form of program revenues, which equated to \$1,246,796 or only 16.93 percent of total revenue.

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

	Change in Net Position	
	Governmental Activities <u>2018</u>	Restated Governmental Activities <u>2017</u>
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 610,417	\$ 556,935
Operating grants and contributions	636,379	733,508
Capital grants and contributions	-	22,720
General revenues:		
Property taxes	2,944,529	3,141,271
Grants and entitlements	3,065,266	2,975,346
Investment earnings	62,359	29,386
Miscellaneous	<u>44,003</u>	<u>26,471</u>
Total revenues	<u>7,362,953</u>	<u>7,485,637</u>

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**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

Expenses

Program expenses:		
Instruction:		
Regular	2,269,881	3,966,513
Special	395,538	646,176
Other	3,329	567
Support services:		
Pupil	158,130	162,162
Instructional staff	214,626	334,725
Board of education	19,381	12,297
Administration	341,543	672,969
Fiscal	127,616	260,799
Operations and maintenance	436,662	843,960
Pupil transportation	145,345	209,011
Central	50,899	82,085
Operation of non-instructional services	174,855	257,016
Extracurricular activities	103,978	267,578
Interest and fiscal charges	<u>117,370</u>	<u>244,754</u>
Total expenses	<u>4,559,153</u>	<u>7,960,612</u>
Change in net position	2,803,800	(474,975)
Net position at beginning of year	<u>5,003,794</u>	<u>N/A</u>
Net position at end of year	<u>\$ 7,807,594</u>	<u>\$ 5,003,794</u>

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$9,302 computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of \$242,118. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	\$ 4,559,153
Negative OPEB expense under GASB 75	242,118
2018 contractually required contributions	<u>11,202</u>
Adjusted 2018 program expenses	4,812,473
Total 2017 program expenses under GASB 45	<u>7,960,612</u>
Decrease in program expenses not related to OPEB	<u>\$ (3,148,139)</u>

Governmental Activities

The District carefully plans its financial existence by forecasting its revenues and expenses for the next five years. The District has two limited levies up for renewal in 2018. Although the District relies heavily upon local property taxes to support its operations, the District does actively solicit and receive additional grant and entitlement funds to help offset some operating costs.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

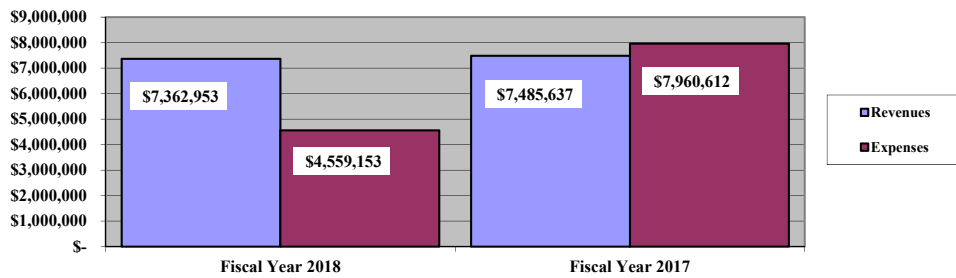
**MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

As one can see, approximately 58.54 percent of the District’s total expenses are instructional expenses. Additional support services for pupils, staff and business operations encompass an additional 32.77 percent. The remaining amount of program expenses, 8.69 percent, is to facilitate other obligations of the District such as interest and fiscal charges, the food service program and numerous extracurricular activities. Actual expenses were consistent with expectations of the District.

Expenses of the governmental activities decreased \$3,401,459 or 42.73%. This decrease is primarily the result of the State Teachers Retirement System (STRS) indefinitely suspending the Cost of Living Adjustment (“COLA”) and the School Employees Retirement System (SERS) lowering the COLA from 3.00% to 2.50%. On an accrual basis, the District reported (\$2,074,741) in pension expense and (\$242,118) in OPEB expense mainly due to these benefit changes.

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

Governmental Activities - Revenues and Expenses



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

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**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

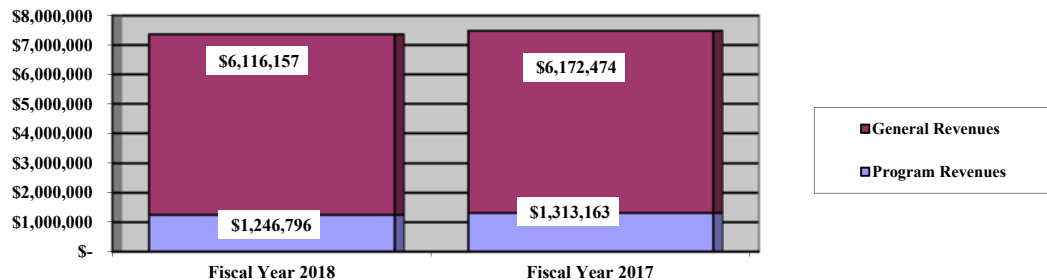
Governmental Activities

	Total Cost of Services <u>2018</u>	Net Cost of Services <u>2018</u>	Total Cost of Services <u>2017</u>	Net Cost of Services <u>2017</u>
Program expenses				
Instruction:				
Regular	\$ 2,269,880	\$ 1,882,246	\$ 3,966,513	\$ 3,594,671
Special	395,539	63,221	646,176	226,336
Other	3,329	3,329	567	567
Support services:				
Pupil	158,130	158,130	162,162	162,162
Instructional staff	214,626	193,597	334,725	298,481
Board of education	19,381	19,381	12,297	12,297
Administration	341,543	331,721	672,969	664,776
Fiscal	127,616	127,616	260,799	260,799
Operations and maintenance	436,662	428,956	843,960	837,792
Pupil transportation	145,345	22,769	209,011	51,038
Central	50,899	50,899	82,085	82,085
Operation of non-instructional services:	174,855	(95,640)	257,016	45,459
Extracurricular activities	103,978	8,763	267,578	166,232
Interest and fiscal charges	117,370	117,370	244,754	244,754
Total expenses	<u>\$ 4,559,153</u>	<u>\$ 3,312,358</u>	<u>\$ 7,960,612</u>	<u>\$ 6,647,449</u>

As one can see, the reliance upon local tax revenues for governmental activities is crucial. Approximately 72.65 percent of total costs are directly supported by general revenues. Programs revenues only account for 27.35 percent of all governmental expenses.

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

Governmental Activities - General and Program Revenues



**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

The District's Funds

The District's governmental funds reported a combined fund balance of \$4,799,973 which is more than last year's fund balance of \$4,372,319. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2018 and 2017.

	Fund Balance <u>June 30, 2018</u>	Fund Balance <u>June 30, 2017</u>	<u>Change</u>
General	\$ 3,193,350	\$ 2,729,094	\$ 464,256
Non-major governmental	<u>1,606,623</u>	<u>1,643,225</u>	<u>(36,602)</u>
Total	<u>\$ 4,799,973</u>	<u>\$ 4,372,319</u>	<u>\$ 427,654</u>

Information regarding the District's major fund can be found beginning on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had revenues totaling \$7,405,951 and expenditures totaling \$6,978,297. The general fund balance increased by \$464,256 as property tax and intergovernmental revenues increased and pupil and instructional support services expenditures decreased.

General Fund Budgeting Highlights

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

The District uses a site-based style of budgeting and has in place systems that are designed to tightly control disbursements but provide flexibility for site based decision and management.

For the general fund, the original budget basis estimated revenues (at the time the full year's appropriation was first passed) and the final budget basis revenue estimate were relatively consistent. There was an increase from the original budget basis expenditures to the final budget basis expenditures to realistically estimate the District's expenditures in line with prior year trends and anticipated expenditures for the fiscal year. The original budget basis expenditures are temporarily appropriated in June and subsequently finalized in September of each year with adjustments made at that time.

The District's general fund unencumbered ending cash balance totaled \$3,292,646 which was more than the final budgeted amount of \$2,281,637 due to conservative budgeting.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2018, the District had \$14,187,550 invested in land, construction in progress buildings and improvements, furniture and equipment, and vehicles, net of accumulated depreciation. The following table shows fiscal 2018 balances compared to 2017:

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

	Governmental Activities	
	2018	2017
Land	\$ 869,900	\$ 869,900
Construction in Progress	37,242	-
Building and improvements	19,114,985	19,114,985
Furniture and fixtures	427,856	404,129
Vehicles	492,738	470,064
Accumulated Depreciation	(6,755,171)	(6,083,208)
Total	\$ 14,187,550	\$ 14,775,870

All capital assets are reported at historical cost. For more information on capital assets refer to Note 8 of the basic financial statements.

Debt

Outstanding Debt, at Year End

	Activities 2018	Activities 2017
	General obligation bonds	
Serial and Term Bonds	\$ 4,280,000	\$ 4,565,000
Capital Appreciation Bonds	84,999	84,999
Accretion on Capital Appreciation Bonds	271,874	261,119
Total	\$ 4,636,873	\$ 4,911,118

The District's overall debt margin is \$5,775,194 and the unvoted debt margin is \$107,260. For more information on debt refer to Note 9 of the basic financial statements.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

Current Financial Related Activities

The District approaches the future with a very conservative approach. The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast. The economic condition of the State and the Nation are having a negative impact on the financial status of the District.

The financial future of the District is faced with challenges which are both internal and external in nature. The internal challenges will continue to exist as the District must rely heavily on local property taxes to fund its operations. External challenges continue to evolve as the State of Ohio determines what to do with the tremendous State revenue shortfalls and determine how to fund schools adequately.

Fluctuations in real and public utility personal property taxes are attributed to changes in market values due to reappraisal and updates. The District receives real and public utility personal property tax revenues from Tuscarawas County.

Although the District relies heavily on its property taxpayers to support its operations, community support for the schools is quite strong. The District passed a five-year 1.6 mill limited levy in May 2018, which expires in 2021.

Additional revenue and/or reductions in expenditures will be necessary to avoid negative general fund balances in future years. The District has communicated to the community that it relies upon their support for the major part of its operations, and will work to work diligently to plan expenditures, staying carefully within the District's 5-year plan. State law limits the growth of income generated by local levies rendering revenue relatively constant.

The District does not anticipate any meaningful growth in State revenue due to the economic condition of the State. The State funding for schools is based on several factors all of which are subject to deliberations and approval of the Ohio General Assembly. School funding has now been established as part of the State's biennial budget for fiscal years 2018 and 2018. The District has established its estimates on the Office of Budget and Management district projects for State education funding.

The State of Ohio is currently working on a new funding formula that is ADM-driven. Due to the current economic condition of the State, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years. Since the District's operations are heavily dependent upon State funding, the State's economic situation is of grave concern to the District.

Contacting the 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 Tricia Schreffler, Treasurer, at Strasburg-Franklin Local School District, 140 North Bodmer Avenue, Strasburg, Ohio 44680, or email at tricia.schreffler@strasburgtigers.org.

BASIC
FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$ 5,263,221
Receivables:	
Property taxes	3,156,604
Intergovernmental	60,101
Materials and supplies inventory	772
Inventory held for resale	5,723
Capital assets:	
Nondepreciable capital assets	907,142
Depreciable capital assets, net	13,280,408
Capital assets, net	14,187,550
Total assets	22,673,971
 Deferred outflows of resources:	
Unamortized deferred charges on debt refunding	448,820
Pension	1,969,304
OPEB	59,370
Total deferred outflows of resources	2,477,494
 Liabilities:	
Accounts payable	31,463
Contracts payable	37,242
Accrued wages and benefits payable	529,168
Intergovernmental payable	87,031
Pension and postemployment benefits payable	79,920
Accrued interest payable	7,838
Long-term liabilities:	
Due within one year	310,226
Due in more than one year:	
Net pension liability (See Note 12)	6,165,705
Other amounts due in more than one year	5,082,768
Net OPEB liability (See Note 13)	1,325,243
Total liabilities	13,656,604
 Deferred inflows of resources:	
Property taxes levied for the next fiscal year	2,843,725
Pension	631,611
OPEB	211,931
Total deferred inflows of resources	3,687,267
 Net position:	
Net investment in capital assets	9,885,163
Restricted for:	
Debt service	212,419
Capital projects	676,269
Classroom facilities maintenance	417,577
Locally funded programs	23,108
Federally funded programs	21,198
Student activities	60,864
Unrestricted (deficit)	(3,489,004)
Total net position	\$ 7,807,594

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 2,269,881	\$ 371,808	\$ 15,827	\$ (1,882,246)
Special	395,538	-	332,318	(63,220)
Other	3,329	-	-	(3,329)
Support services:				
Pupil.	158,130	-	-	(158,130)
Instructional staff	214,626	-	21,029	(193,597)
Board of education	19,381	-	-	(19,381)
Administration.	341,543	9,822	-	(331,721)
Fiscal.	127,616	-	-	(127,616)
Operations and maintenance	436,662	7,706	-	(428,956)
Pupil transportation.	145,345	-	122,576	(22,769)
Central	50,899	-	-	(50,899)
Operation of non-instructional services:				
Other non-instructional services	13,431	-	1,289	(12,142)
Food service operations.	161,424	125,866	143,340	107,782
Extracurricular activities	103,978	95,215	-	(8,763)
Interest and fiscal charges	117,370	-	-	(117,370)
Total governmental activities.	<u>\$ 4,559,153</u>	<u>\$ 610,417</u>	<u>\$ 636,379</u>	<u>(3,312,357)</u>

General revenues:

Property taxes levied for:	
General purposes	2,500,530
Debt service.	331,886
Classroom facilities maintenance	35,036
Permanent improvement	77,077
Grants and entitlements not restricted to specific programs	3,065,266
Investment earnings	62,359
Miscellaneous	44,003
Total general revenues	<u>6,116,157</u>
Change in net position	2,803,800
Net position at beginning of year (restated)	<u>5,003,794</u>
Net position at end of year	<u><u>\$ 7,807,594</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents.	\$ 3,595,335	\$ 1,667,886	\$ 5,263,221
Receivables:			
Property taxes.	2,682,614	473,990	3,156,604
Interfund loans	56,510	-	56,510
Intergovernmental.	16,546	43,555	60,101
Materials and supplies inventory.	-	772	772
Inventory held for resale.	-	5,723	5,723
Total assets	\$ 6,351,005	\$ 2,191,926	\$ 8,542,931
Liabilities:			
Accounts payable	\$ 18,667	\$ 12,796	\$ 31,463
Contracts payable.	-	37,242	37,242
Accrued wages and benefits payable	507,449	21,719	529,168
Intergovernmental payable	85,286	1,745	87,031
Pension and postemployment benefits payable	77,176	2,744	79,920
Interfund loans payable	-	56,510	56,510
Total liabilities.	688,578	132,756	821,334
Deferred inflows of resources:			
Property taxes levied for the next fiscal year.	2,416,772	426,953	2,843,725
Delinquent property tax revenue not available.	52,305	7,041	59,346
Intergovernmental revenue not available.	-	18,553	18,553
Total deferred inflows of resources	2,469,077	452,547	2,921,624
Fund balances:			
Nonspendable:			
Materials and supplies inventory.	-	772	772
Restricted:			
Debt service	-	486,792	486,792
Capital improvements	-	637,876	637,876
Classroom facilities maintenance	-	417,026	417,026
Food service operations	-	2,635	2,635
Other local grants	-	23,108	23,108
Student activities	-	60,864	60,864
Federal grant programs	-	2,645	2,645
Assigned:			
Student instruction	21,931	-	21,931
Student and staff support.	206,365	-	206,365
Non-instructional	1,406	-	1,406
Unassigned (deficit)	2,963,648	(25,095)	2,938,553
Total fund balances	3,193,350	1,606,623	4,799,973
Total liabilities, deferred inflows and fund balances	\$ 6,351,005	\$ 2,191,926	\$ 8,542,931

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

Total governmental fund balances		\$ 4,799,973
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		14,187,550
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Property taxes receivable	\$ 59,346	
Intergovernmental receivable	18,553	
Total	77,899	
Unamortized premiums on bonds issued are not recognized in the funds.		(348,966)
Unamortized amounts on refundings are not recognized in the funds.		448,820
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(7,838)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows of resources are not reported in governmental funds:		
Deferred outflows of resources - pension	1,969,304	
Deferred inflows of resources - pension	(631,611)	
Net pension liability	(6,165,705)	
Total	(4,828,012)	
The OPEB pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows of resources are not reported in governmental funds:		
Deferred outflows of resources - OPEB	59,370	
Deferred inflows of resources - OPEB	(211,931)	
Net OPEB liability	(1,325,243)	
Total	(1,477,804)	
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	(4,636,873)	
Compensated absences	(407,155)	
Total	(5,044,028)	
Net position of governmental activities		\$ 7,807,594

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
From local sources:			
Property taxes	\$ 2,505,725	\$ 446,364	\$ 2,952,089
Tuition	333,508	-	333,508
Earnings on investments	62,359	-	62,359
Charges for services	-	125,866	125,866
Extracurricular	31,092	91,120	122,212
Classroom materials and fees	17,030	-	17,030
Rental income	7,706	-	7,706
Contributions and donations	7,225	4,095	11,320
Other local revenues	36,778	8,625	45,403
Intergovernmental - state	3,272,770	72,614	3,345,384
Intergovernmental - federal	-	383,074	383,074
Total revenues	<u>6,274,193</u>	<u>1,131,758</u>	<u>7,405,951</u>
Expenditures:			
Current:			
Instruction:			
Regular	3,252,365	47,658	3,300,023
Special	421,750	225,956	647,706
Other	3,329	-	3,329
Support services:			
Pupil	207,479	-	207,479
Instructional staff	219,285	26,353	245,638
Board of education	22,656	-	22,656
Administration	597,341	-	597,341
Fiscal	204,485	8,995	213,480
Operations and maintenance	488,825	83,804	572,629
Pupil transportation	198,428	22,674	221,102
Central	50,899	-	50,899
Operation of non-instructional services:			
Other operation of non-instructional	11,921	1,510	13,431
Food service operations	-	247,988	247,988
Extracurricular activities	131,174	77,452	208,626
Facilities acquisition and construction	-	40,822	40,822
Debt service:			
Principal retirement	-	285,000	285,000
Interest and fiscal charges	-	100,148	100,148
Total expenditures	<u>5,809,937</u>	<u>1,168,360</u>	<u>6,978,297</u>
Net change in fund balances	464,256	(36,602)	427,654
Fund balances at beginning of year	<u>2,729,094</u>	<u>1,643,225</u>	<u>4,372,319</u>
Fund balances at end of year	<u>\$ 3,193,350</u>	<u>\$ 1,606,623</u>	<u>\$ 4,799,973</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

Net change in fund balances - total governmental funds	\$	427,654
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 83,643	
Current year depreciation	<u>(671,963)</u>	
Total		(588,320)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	\$ (6,922)	
Intergovernmental	<u>(36,076)</u>	
Total		(42,998)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		
		285,000
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities:		
Decrease in accrued interest payable	459	
Accreted interest on capital appreciation bonds	(10,755)	
Amortization of bond premiums	24,206	
Amortization of deferred charges	<u>(31,132)</u>	
Total		(17,222)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		(7,983)
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		419,608
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		2,074,741
Contractually required OPEB contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		11,202
Except for amounts reported as deferred inflows/outflows, changes in the net OPEB liability are reported as pension expense in the statement of activities.		
		<u>242,118</u>
Change in net position of governmental activities	\$	<u>2,803,800</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
Revenues:				
From local sources:				
Property taxes	\$ 2,578,746	\$ 2,320,598	\$ 2,635,494	\$ 314,896
Tuition	326,328	280,739	333,509	52,770
Earnings on investments	61,016	28,362	62,359	33,997
Classroom materials and fees	16,663	15,553	17,030	1,477
Rental income	7,540	5,798	7,706	1,908
Contributions and donations	7,069	-	7,225	7,225
Other local revenues	24,619	20,339	25,161	4,822
Intergovernmental - state	3,184,495	2,688,900	3,254,574	565,674
Total revenues	<u>6,206,476</u>	<u>5,360,289</u>	<u>6,343,058</u>	<u>982,769</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,919,455	3,887,647	3,199,909	687,738
Special	264,693	287,436	425,838	(138,402)
Vocational	88	-	-	-
Other	668	584	3,329	(2,745)
Support services:				
Pupil	102,312	162,899	209,743	(46,844)
Instructional staff	175,012	266,541	237,738	28,803
Board of education	9,309	22,260	22,077	183
Administration	348,570	402,270	608,948	(206,678)
Fiscal	139,033	230,016	257,394	(27,378)
Operations and maintenance	319,437	488,348	562,745	(74,397)
Pupil transportation	122,429	148,049	238,307	(90,258)
Central	47,321	105,709	68,850	36,859
Other operation of non-instructional services	2,425	11,913	13,327	(1,414)
Extracurricular activities	80,063	81,285	130,575	(49,290)
Total expenditures	<u>3,530,815</u>	<u>6,094,957</u>	<u>5,978,780</u>	<u>116,177</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,675,661</u>	<u>(734,668)</u>	<u>364,278</u>	<u>1,098,946</u>
Other financing sources (uses):				
Refund of prior year's expenditures	-	1,662	1,662	-
Transfers in	-	278,949	160,949	(118,000)
Transfers (out)	(87,094)	(160,949)	(160,949)	-
Advances in	-	60,000	37,725	(22,275)
Advances (out)	(6,115)	(134,343)	(82,005)	52,338
Total other financing sources (uses)	<u>(93,209)</u>	<u>45,319</u>	<u>(42,618)</u>	<u>(87,937)</u>
Net change in fund balance	2,582,452	(689,349)	321,660	1,011,009
Fund balance at beginning of year	2,959,485	2,959,485	2,959,485	-
Prior year encumbrances appropriated	11,501	11,501	11,501	-
Fund balance at end of year	<u>\$ 5,553,438</u>	<u>\$ 2,281,637</u>	<u>\$ 3,292,646</u>	<u>\$ 1,011,009</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 18,100	\$ 39,982
Total assets.	18,100	\$ 39,982
Liabilities:		
Due to students.	-	\$ 39,982
Total liabilities.	-	\$ 39,982
Net position:		
Held in trust for scholarships	18,100	
Total net position.	\$ 18,100	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 214
Total additions	214
Deductions:	
Payments in accordance with trust agreements	999
Change in net position	(785)
Net position at beginning of year.	18,885
Net position at end of year	\$ 18,100

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 1 - DESCRIPTION OF THE DISTRICT

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

There have been schools in Franklin Township, Tuscarawas County, Ohio, dating back to 1816. However, the Strasburg-Franklin Local District (the "District") was officially formed in 1946, with the closing of the last of six township schools, and the transfer of those students to the school buildings in town for their education.

The District operates under a locally-elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the District's one facility, staffed by 16 classified personnel, 46 certificated teaching personnel and 4 administrators who provide service to 693 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

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

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

JOINTLY GOVERNED ORGANIZATIONS

Buckeye Joint Vocational District

The Joint Vocational District is a separate body politic and corporate, established by the Ohio Revised Code to provide for the vocational and special education needs of the students. The Joint Vocational District's Board of Education is comprised of representatives from the Board of Education of each participating district. The Joint Vocational District's Board of Education is responsible for approving its own budgets, appointing personnel, and accounting and finance related activities. The District's students may attend the Joint Vocational District. Each participating District's control is limited to its representation on the Joint Vocational District's Board of Education.

Stark-Portage Area Computer Consortium (SPARCC)

The District is a member of SPARCC, a jointly governed organization which provides computer services to the districts within the boundaries of Stark and Portage Counties. Each District's superintendent serves as a representative on the Board, which consists of 30 member districts; however, SPARCC is primarily governed by a five-member executive board, which is made up of two representatives from Stark County, two from Portage County, and a Treasurer. The Board meets monthly to address any current issues.

Strasburg Enterprise Zone Committee

The Strasburg Enterprise Zone Committee (Enterprise Zone) is a jointly governed organization created as a regional council of governments pursuant to State Statutes. The Enterprise Zone Committee has seven members, consisting of three members appointed by Strasburg Village Council, the Mayor of the Village, two business people, and one member appointed by the Strasburg-Franklin Local Board of Education. The committee has the authority to negotiate tax abatement agreements with current and prospective businesses located in the Enterprise Zone. There is no cost associated with being a member of this committee. The continued existence of this committee is not dependent upon the District's continued participation and no equity interest exists.

The District does not retain an ongoing financial interest or an ongoing financial responsibility with any of these organizations.

PUBLIC ENTITY RISK POOLS

Workers' Compensation Group Rating Program

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

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

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

Stark County Schools Council of Governments

The Stark County Schools Council of Governments Health Benefit Plan (the “Council”) is a shared risk pool, with participants from Stark, Summit and Portage Counties. The Council is governed by an assembly which consists of one representative from each participating district (usually the superintendent or designee). The assembly elects officers for two-year terms to serve on the Board of Directors. The assembly exercises control over the operation of the Council. All Council receipts are generated from charges for services. Financial information can be obtained by writing to Stark County Educational Service Center, 6057 Strip Avenue NW, North Canton, Ohio 44720.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

The following is the District’s major governmental fund:

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

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

PROPRIETARY FUNDS

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

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

The private-purpose trust fund is reported using the economic resources measurement focus. The agency fund does not report a measurement focus as it does not report operations.

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, see Notes 12 and 13 for deferred outflows of resources related to the District's net pension liability and net OPEB liability, respectively. In addition, deferred outflows of resources include a deferred charge on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

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

Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the District, see Note 12 and 13 for deferred inflows of resources related to the District's net pension liability and net OPEB liability, respectively. This deferred inflow of resources is only reported on the government-wide statement of net position.

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

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

E. Budgets

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

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

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

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

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

F. Cash and Cash Equivalents

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

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Investment earnings are credited to funds based on Board Policy and State statute. Interest revenue credited to the general fund during fiscal year 2018 amounted to \$62,359, which includes \$21,203 assigned from other District funds.

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

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

G. Inventory

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

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

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

H. Capital Assets

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

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District was able to estimate the historical cost for the initial reporting of capital assets by back trending (i.e., estimating the current replacement cost of the assets to be capitalized and using an appropriate price-level index to deflate the cost the acquisition year or estimated acquisition year). Donated capital assets are recorded at their acquisition value as of the date received. The District maintains a capitalization threshold of \$2,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not. The District does not possess infrastructure.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives
Buildings and Improvements	20 - 50 Years
Furniture and Fixtures	5 - 20 Years
Vehicles	8 - 10 Years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column on the statement of net position.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused sick leave and vacation leave benefits when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the District’s past experience of making termination payments.

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

On the governmental fund statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements.

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

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

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits. Bonds are recognized as a liability on the fund financial statements when due.

L. Fund Balance

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

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

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

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

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

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

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

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

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

M. Net Position

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

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. The District had no prepayments at June 30, 2018.

O. Estimates

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

P. Interfund Activity

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

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

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

Q. Pensions/Other Postemployment Benefits (OPEB)

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

R. Extraordinary and Special Items

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

S. Issuance Costs, Bond Premium and Accounting Gain or Loss on Debt Refunding

On the governmental fund financial statements, issuance costs, bond premiums, and deferred charges from debt refunding are recognized in the current period.

On the government-wide financial statements, issuance costs are recognized in the current period and are not amortized. Bond premiums are amortized over the term of the bonds using the straight-line method. Unamortized bond premiums are presented as an addition to the face amount of the bonds reported on the statement of net position. The reconciliation between the bonds face value and the amount reported on the statement of net position is presented in Note 9.A.

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

T. Fair Market Value

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

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles/Restatement of Net Position

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

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 effected the District's postemployment benefit plan disclosures, as presented in Note 13 to the basic financial statements, and added required supplementary information.

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

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

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

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

	Governmental Activities
Net position as previously reported	\$ 6,734,918
Deferred outflows - payments subsequent to measurement date	9,302
Net OPEB liability	(1,740,426)
Restated net position at July 1, 2017	\$ 5,003,794

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

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

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

<u>Nonmajor funds</u>	<u>Deficit</u>
Title I	\$ 24,260
Miscellaneous federal grants	835

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

A. Cash on Hand

At fiscal year end, the District had no undeposited cash on hand.

B. Deposits with Financial Institutions

At June 30, 2018, the carrying amount of all District deposits was \$681,600. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2018, \$360,900 of the District's bank balance of \$828,065 was exposed to custodial risk as discussed below, while \$467,165 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For fiscal year 2018, certain District financial institutions did not participate in the OPCS while certain other financial institutions did participate in the OPCS. Those financial institutions that did participate were approved for a reduced collateral rate of 102 percent through the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the District to a successful claim by the FDIC.

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

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

Measurement/ <u>Investment type</u>	Measurement <u>Value</u>	Investment <u>Maturities</u> 6 months or <u>less</u>
<i>Amortized Cost:</i>		
STAR Ohio	<u>\$ 4,639,703</u>	<u>\$ 4,639,703</u>

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

Credit Risk: The District's investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code. Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

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

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2018:

<u>Measurement/ Investment type</u>	<u>Measurement Amount</u>	<u>% of Total</u>
STAR Ohio	<u>\$ 4,639,703</u>	<u>100.00</u>

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

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

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 681,600
Investments	<u>4,639,703</u>
Total	<u>\$ 5,321,303</u>

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Cash and cash equivalents per statement of net position</u>	
Governmental activities	\$ 5,263,221
Private-purpose trust fund	18,100
Agency fund	<u>39,982</u>
Total	<u>\$ 5,321,303</u>

NOTE 5 - INTERFUND TRANSACTIONS

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

<u>Receivable fund</u>	<u>Payable funds</u>	<u>Amount</u>
General fund	Nonmajor special revenue funds	\$ 56,510

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year. Interfund balances between governmental funds are eliminated on the government-wide financial statements.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property. Real property tax revenues received in calendar year 2018 represent the collection of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed values as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2018 represent the collection of calendar year 2017 taxes. Public utility real and personal property taxes received in calendar year 2018 became a lien on December 31, 2016, were levied after April 1, 2017, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

The District receives property taxes from Tuscarawas County. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2018, are available to finance fiscal year 2018 operations. The amount available as an advance at June 30, 2018 was \$213,537 in the general fund, \$30,216 in the bond retirement fund, \$3,134 in the classroom facilities fund and \$6,646 in the permanent improvement fund. This amount is recorded as revenue. The amount available for advance at June 30, 2017 was \$343,306 in the general fund, \$47,620 in the bond retirement fund, \$4,961 in the classroom facility fund and \$10,566 in the permanent improvement fund. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 6 - PROPERTY TAXES (Continued)

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

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

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

	2017 Second Half Collections		2018 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 100,869,420	95.24	\$ 101,842,090	94.95
Public utility personal	<u>5,043,360</u>	<u>4.76</u>	<u>5,417,920</u>	<u>5.05</u>
Total	<u>\$ 105,912,780</u>	<u>100.00</u>	<u>\$ 107,260,010</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$60.70		\$60.70	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2018 consisted of taxes and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs and the current year guarantee of federal funds.

A summary of the principal items of receivables reported on the statement of net position follows:

Governmental activities:	
Taxes	\$ 3,156,604
Intergovernmental	<u>60,101</u>
Total	<u>\$ 3,216,705</u>

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

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 8 - CAPITAL ASSETS

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

	Balance <u>06/30/17</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>06/30/18</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 869,900	\$ -	\$ -	\$ 869,900
Construction in progress	<u>-</u>	<u>37,242</u>	<u>-</u>	<u>37,242</u>
Total capital assets, not being depreciated	<u>869,900</u>	<u>37,242</u>	<u>-</u>	<u>907,142</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	19,114,985	-	-	19,114,985
Furniture and equipment	404,129	23,727	-	427,856
Vehicles	<u>470,064</u>	<u>22,674</u>	<u>-</u>	<u>492,738</u>
Total capital assets, being depreciated	<u>19,989,178</u>	<u>46,401</u>	<u>-</u>	<u>20,035,579</u>
<i>Less: accumulated depreciation:</i>				
Buildings and improvements	(5,395,754)	(634,882)	-	(6,030,636)
Furniture and equipment	(239,163)	(30,744)	-	(269,907)
Vehicles	<u>(448,291)</u>	<u>(6,337)</u>	<u>-</u>	<u>(454,628)</u>
Total accumulated depreciation	<u>(6,083,208)</u>	<u>(671,963)</u>	<u>-</u>	<u>(6,755,171)</u>
Governmental activities capital assets, net	<u>\$ 14,775,870</u>	<u>\$ (588,320)</u>	<u>\$ -</u>	<u>\$ 14,187,550</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular \$ 547,273

Support services:

Instructional staff	3,040
Administration	83,981
Operations and maintenance	3,728
Pupil transportation	6,337
Extracurricular activities	20,207
Food service operations	<u>7,397</u>
Total depreciation expense	<u>\$ 671,963</u>

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 9 - LONG-TERM OBLIGATIONS

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

	Restated Balance <u>06/30/17</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>06/30/18</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
General obligation bonds (refunding), series 2012:					
Current interest serial bonds	\$ 4,565,000	\$ -	\$ (285,000)	\$ 4,280,000	\$ 295,000
Capital appreciation bonds	84,999	-	-	84,999	-
Accreted interest	<u>261,119</u>	<u>10,755</u>	<u>-</u>	<u>271,874</u>	<u>-</u>
Total refunding bonds	<u>4,911,118</u>	<u>10,755</u>	<u>(285,000)</u>	<u>4,636,873</u>	<u>295,000</u>
Compensated absences	399,172	31,692	(23,708)	407,155	15,226
Net OPEB liability:					
STRS	1,175,859	-	(341,434)	834,425	-
SERS	<u>564,567</u>	<u>-</u>	<u>(73,749)</u>	<u>490,818</u>	<u>-</u>
Total net OPEB liability	<u>1,740,426</u>	<u>-</u>	<u>(415,183)</u>	<u>1,325,243</u>	<u>-</u>
Net pension liability:					
STRS	7,359,638	-	(2,279,210)	5,080,428	-
SERS	<u>1,433,288</u>	<u>-</u>	<u>(348,011)</u>	<u>1,085,277</u>	<u>-</u>
Total net pension liability	<u>8,792,926</u>	<u>-</u>	<u>(2,627,221)</u>	<u>6,165,705</u>	<u>-</u>
Total long-term obligations, governmental activities	<u>\$ 15,843,642</u>	<u>\$ 42,447</u>	<u>\$ (3,351,112)</u>	<u>12,534,976</u>	<u>\$ 310,226</u>
Add: Unamortized premium on refunding				<u>348,966</u>	
Total on the statement of net position				<u>\$ 12,883,942</u>	

Compensated absences will be paid from the general fund.

Net pension liability - see note 12 for detail.

Net OPEB liability - see Note 13 for detail.

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)

B. *Refunding Bonds - Series 2012:* On October 30, 2012, the District issued \$5,329,999 in general obligation bonds to refund a portion of the Ohio Facilities Construction Commission (OFCC) general obligation bonds in order to take advantage of lower interest rates. The bonds included serial and capital appreciation (deep discount) bonds in the amount of \$5,245,000 and \$84,999, respectively. The interest rates on the current interest bonds range from 1.50% to 3.00%. The capital appreciation bonds mature on December 1, 2019 (effective interest 27.40%), and December 1, 2020 (effective interest 27.40%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The bonds were issued for a twenty year period with a final maturity at December 1, 2032. Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity amount of outstanding capital appreciation bonds at December 1, 2020 is \$590,000. The accretion recorded for 2018 was \$10,755, for a total outstanding capital appreciation bond liability of \$271,874. These bonds are general obligations of the District for which full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this bond issue are recorded as a disbursement in the debt service fund.

The bonds were sold at a premium of \$484,116. Net proceeds of \$5,922,640 were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. On June 30, 2018, \$4,700,000 of the defeased bonds are still outstanding.

The District's overall debt margin is \$5,775,194 (including available funds of \$486,792) and the unvoted debt margin is \$107,260.

The following is a summary of the future debt service requirements to maturity for the refunding bonds:

Fiscal Year Year Ended	Series 2012 Refunding Current Interest Bonds			Series 2012 Refunding Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 295,000	\$ 95,085	\$ 390,085	\$ -	\$ -	\$ -
2020	-	92,872	92,872	48,633	251,367	300,000
2021	-	92,872	92,872	36,366	253,634	290,000
2022	295,000	89,902	384,902	-	-	-
2023	300,000	83,932	383,932	-	-	-
2024 - 2028	1,600,000	325,052	1,925,052	-	-	-
2029 - 2033	1,790,000	126,588	1,916,588	-	-	-
Total	<u>\$ 4,280,000</u>	<u>\$ 906,303</u>	<u>\$ 5,186,303</u>	<u>\$ 84,999</u>	<u>\$ 505,001</u>	<u>\$ 590,000</u>

NOTE 10 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2018, the District contracted with Liberty Mutual for property insurance. Liberty Mutual also covers boiler and machinery with a \$1,000 deductible and inland marine coverage with a \$250 deductible.

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 10 - RISK MANAGEMENT - (Continued)

Professional and general liability is protected by Liberty Mutual with a \$3,000,000 aggregate/\$1,000,000 single occurrence limit and a \$2,500 deductible. Vehicles are covered by Liberty Mutual and hold a \$100 deductible for comprehensive and \$500 deductible for collision. Automobile liability has a \$2,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

B. Workers' Compensation

The District participates in a Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the GRP. Each participant pays its workers' 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 percentage 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 insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

C. Health Insurance

The District participates in the Stark County Schools Council of Governments Health Benefit Plan (the "Council"), a risk sharing pool to provide medical/surgical benefits for employees (Note 2.A.). The District's insurance program for health care, through the Council, is administered by Mutual Health Services Company and Aultcare Corporation. Payments are made to the Council for monthly premiums, monthly stop-loss premiums and administrative charges. The District submits monthly payments for family plans and individual coverage to the Stark County Educational Service Center who serves as the fiscal agent for the Council. The premium is paid by the fund that pays the salary for the employee and is based on a rate determined by an actuary for the Council.

NOTE 11 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vested vacation and sick leave benefits derived from negotiated agreements and State laws. Classified employees earn 10 to 20 days of vacation each year, depending upon length of service and hours worked. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers and principals do not earn vacation time. Teachers, administrators and classified employees earn sick leave that may be accumulated for certified employees and classified employees. Upon retirement employees receive payment for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 60 days.

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 11 - EMPLOYEE BENEFITS - (Continued)

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees. Life insurance is provided through the Stark County Schools Council of Government's Health Benefits Program.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire 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 thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

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

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

The District's contractually required contribution to SERS was \$66,815 for fiscal year 2018. Of this amount, \$10,521 is reported as due to pension and postemployment benefits payable.

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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

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

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

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

The District's contractually required contribution to STRS was \$352,793 for fiscal year 2018. Of this amount, \$59,552 is reported as pension and postemployment benefits payable.

Net Pension Liability

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.01958290%	0.02198678%	
Proportion of the net pension liability current measurement date	<u>0.01816430%</u>	<u>0.02138658%</u>	
Change in proportionate share	<u>-0.00141860%</u>	<u>-0.00060020%</u>	
Proportionate share of the net pension liability	\$ 1,085,277	\$ 5,080,428	\$ 6,165,705
Pension expense	\$ 86,332	\$ 1,988,409	\$ 2,074,741

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 46,705	\$ 196,185	\$ 242,890
Changes of assumptions	56,121	1,111,146	1,167,267
Difference between District contributions and proportionate share of contributions/change in proportionate share	-	139,539	139,539
District contributions subsequent to the measurement date	<u>66,815</u>	<u>352,793</u>	<u>419,608</u>
Total deferred outflows of resources	<u>\$ 169,641</u>	<u>\$ 1,799,663</u>	<u>\$ 1,969,304</u>

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ -	\$ 40,946	\$ 40,946
Net difference between projected and actual earnings on pension plan investments	5,150	167,661	172,811
Difference between District contributions and proportionate share of contributions/change in proportionate share	<u>90,780</u>	<u>327,074</u>	<u>417,854</u>
Total deferred inflows of resources	<u>\$ 95,930</u>	<u>\$ 535,681</u>	<u>\$ 631,611</u>

\$419,608 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2019	\$ (3,745)	\$ 201,895	\$ 198,150
2020	35,791	429,967	465,758
2021	150	228,057	228,207
2022	<u>(25,300)</u>	<u>51,270</u>	<u>25,970</u>
Total	<u>\$ 6,896</u>	<u>\$ 911,189</u>	<u>\$ 918,085</u>

Actuarial Assumptions - SERS

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

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

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

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

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

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of the net pension liability	\$ 1,506,082	\$ 1,085,277	\$ 732,766

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - STRS Ohio

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

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

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

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

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

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

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's proportionate share of the net pension liability	\$ 7,282,621	\$ 5,080,428	\$ 3,225,411

**STRASBURG-FRANKLIN LOCAL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 13 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

**STRASBURG-FRANKLIN LOCAL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 13 - DEFINED BENEFIT OPEB PLANS - (Continued)

The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the District's surcharge obligation was \$8,727.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$11,202 for fiscal year 2018. Of this amount, \$9,117 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

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

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

**STRASBURG-FRANKLIN LOCAL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 - DEFINED BENEFIT OPEB PLANS - (Continued)

Net OPEB Liability

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability prior measurement date	0.01980680%	0.02198678%	
Proportion of the net OPEB liability current measurement date	<u>0.01828860%</u>	<u>0.02138658%</u>	
Change in proportionate share	<u>-0.00151820%</u>	<u>-0.00060020%</u>	
Proportionate share of the net OPEB liability	\$ 490,818	\$ 834,425	\$ 1,325,243
OPEB expense	\$ (17,090)	\$ 259,208	\$ 242,118

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ -	\$ 48,168	\$ 48,168
District contributions subsequent to the measurement date	<u>11,202</u>	<u>-</u>	<u>11,202</u>
Total deferred outflows of resources	<u>\$ 11,202</u>	<u>\$ 48,168</u>	<u>\$ 59,370</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 - DEFINED BENEFIT OPEB PLANS - (Continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	\$ 1,296	\$ 35,666	\$ 36,962
Changes of assumptions	46,576	67,215	113,791
Difference between District contributions and proportionate share of contributions/change in proportionate share	<u>33,665</u>	<u>27,513</u>	<u>61,178</u>
Total deferred inflows of resources	<u>\$ 81,537</u>	<u>\$ 130,394</u>	<u>\$ 211,931</u>

\$11,202 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2019	\$ (29,396)	\$ (16,677)	\$ (46,073)
2020	(29,396)	(16,677)	(46,073)
2021	(22,421)	(16,677)	(39,098)
2022	(324)	(16,677)	(17,001)
2023	-	(7,763)	(7,763)
Thereafter	<u>-</u>	<u>(7,755)</u>	<u>(7,755)</u>
Total	<u>\$ (81,537)</u>	<u>\$ (82,226)</u>	<u>\$ (163,763)</u>

Actuarial Assumptions - SERS

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

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.

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 13 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

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

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

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

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

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 13 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

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

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

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
District's proportionate share of the net OPEB liability	\$ 592,725	\$ 490,818	\$ 410,081

**STRASBURG-FRANKLIN LOCAL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

NOTE 13 - DEFINED BENEFIT OPEB PLANS - (Continued)

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
District's proportionate share of the net OPEB liability	\$ 398,262	\$ 490,818	\$ 613,317

Actuarial Assumptions - STRS

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

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

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

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

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

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary data 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.

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 13 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

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

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

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

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 13 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
District's proportionate share of the net OPEB liability	\$ 1,120,203	\$ 834,425	\$ 608,568

	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 579,723	\$ 834,425	\$ 1,169,644

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General fund</u>
Budget basis	\$ 321,660
Net adjustment for revenue accruals	(111,574)
Net adjustment for expenditure accruals	(84,917)
Net adjustment for other sources/uses	42,618
Funds budgeted elsewhere	4,490
Adjustment for encumbrances	291,979
GAAP basis	\$ 464,256

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

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

C. Foundation Funding

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

**STRASBURG-FRANKLIN LOCAL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

NOTE 16 - SET-ASIDES

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

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

	<u>Capital Improvements</u>
Set-aside balance June 30, 2017	\$ -
Current year set-aside requirement	106,948
Current year qualifying expenditures	(36,072)
Current year offsets	<u>(140,945)</u>
Total	<u>\$ (70,069)</u>
Balance carried forward to fiscal year 2019	<u>\$ -</u>
Set-aside balance June 30, 2018	<u><u>\$ -</u></u>

NOTE 17 - OTHER COMMITMENTS

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

<u>Fund Type</u>	<u>Year-End Encumbrances</u>
General	\$ 223,097
Other governmental	<u>146,225</u>
Total	<u><u>\$ 369,322</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

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**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.01816430%	0.01958290%	0.01977800%	0.02117600%	0.02117600%
District's proportionate share of the net pension liability	\$ 1,085,277	\$ 1,433,288	\$ 1,128,552	\$ 1,071,705	\$ 1,259,269
District's covered payroll	\$ 656,436	\$ 492,936	\$ 595,425	\$ 615,346	\$ 581,199
District's proportionate share of the net pension liability as a percentage of its covered payroll	165.33%	290.77%	189.54%	174.16%	216.67%
Plan fiduciary net position as a percentage of the total pension liability	69.50%	62.98%	69.16%	71.70%	65.52%

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.02138658%	0.02198678%	0.02304450%	0.02179425%	0.02179425%
District's proportionate share of the net pension liability	\$ 5,080,428	\$ 7,359,638	\$ 6,368,826	\$ 5,300,688	\$ 6,314,145
District's covered payroll	\$ 2,288,707	\$ 2,347,914	\$ 2,339,350	\$ 2,226,592	\$ 2,311,838
District's proportionate share of the net pension liability as a percentage of its covered payroll	221.98%	313.45%	272.25%	238.06%	273.12%
Plan fiduciary net position as a percentage of the total pension liability	75.30%	66.80%	72.10%	74.70%	69.30%

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 66,815	\$ 91,901	\$ 69,011	\$ 78,477
Contributions in relation to the contractually required contribution	<u>(66,815)</u>	<u>(91,901)</u>	<u>(69,011)</u>	<u>(78,477)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 494,926	\$ 656,436	\$ 492,936	\$ 595,425
Contributions as a percentage of covered payroll	13.50%	14.00%	14.00%	13.18%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 85,287	\$ 80,438	\$ 83,988	\$ 46,907	\$ 53,660	\$ 48,836
<u>(85,287)</u>	<u>(80,438)</u>	<u>(83,988)</u>	<u>(46,907)</u>	<u>(53,660)</u>	<u>(48,836)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 615,346	\$ 581,199	\$ 624,446	\$ 373,166	\$ 396,307	\$ 496,301
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 352,793	\$ 320,419	\$ 328,708	\$ 327,509
Contributions in relation to the contractually required contribution	<u>(352,793)</u>	<u>(320,419)</u>	<u>(328,708)</u>	<u>(327,509)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 2,519,950	\$ 2,288,707	\$ 2,347,914	\$ 2,339,350
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 289,457	\$ 300,539	\$ 307,550	\$ 303,211	\$ 303,465	\$ 293,977
<u>(289,457)</u>	<u>(300,539)</u>	<u>(307,550)</u>	<u>(303,211)</u>	<u>(303,465)</u>	<u>(293,977)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,226,592	\$ 2,311,838	\$ 2,365,769	\$ 2,332,392	\$ 2,334,346	\$ 2,261,362
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

	2018	2017
District's proportion of the net OPEB liability	0.01828860%	0.01980680%
District's proportionate share of the net OPEB liability	\$ 490,818	\$ 564,567
District's covered payroll	\$ 656,436	\$ 492,936
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	74.77%	114.53%
Plan fiduciary net position as a percentage of the total OPEB liability	12.46%	11.49%

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

	2018	2017
District's proportion of the net OPEB liability	0.02138658%	0.02198678%
District's proportionate share of the net OPEB liability	\$ 834,425	\$ 1,175,859
District's covered payroll	\$ 2,288,707	\$ 2,347,914
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	36.46%	50.08%
Plan fiduciary net position as a percentage of the total OPEB liability	47.10%	37.30%

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 11,202	\$ 9,302	\$ 9,858	\$ 4,629
Contributions in relation to the contractually required contribution	<u>(11,202)</u>	<u>(9,302)</u>	<u>(9,858)</u>	<u>(4,629)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 494,926	\$ 656,436	\$ 492,936	\$ 595,425
Contributions as a percentage of covered payroll	2.26%	1.42%	2.00%	0.78%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 4,629	\$ 4,301	\$ 4,683	\$ 88,181	\$ 68,508	\$ 81,403
<u>(4,629)</u>	<u>(4,301)</u>	<u>(4,683)</u>	<u>(88,181)</u>	<u>(68,508)</u>	<u>(81,403)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 615,346	\$ 581,199	\$ 624,446	\$ 373,166	\$ 396,307	\$ 496,301
0.75%	0.74%	0.75%	23.63%	17.29%	16.40%

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 2,519,950	\$ 2,288,707	\$ 2,347,914	\$ 2,339,350
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 22,266	\$ 23,118	\$ 23,658	\$ 23,324	\$ 23,343	\$ 22,614
<u>(22,266)</u>	<u>(23,118)</u>	<u>(23,658)</u>	<u>(23,324)</u>	<u>(23,343)</u>	<u>(22,614)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,226,592	\$ 2,311,838	\$ 2,365,769	\$ 2,332,392	\$ 2,334,346	\$ 2,261,362
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

PENSION

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

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

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2018.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

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

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

(Continued)

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT
TUSCARAWAS COUNTY, OHIO**

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

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

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

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement, and disability were updated to reflect recent experience, (e) mortality among active members was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females, (f) mortality among service retired members, and beneficiaries was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, (g) mortality among disabled members was updated to the following: RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2020.

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

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

Strasburg-Franklin Local School District
Tuscarawas County
140 North Bodmer Avenue
Strasburg, Ohio 44680

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Strasburg-Franklin Local School District, Tuscarawas County, as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Strasburg-Franklin Local School District's basic financial statements and have issued our report thereon dated December 11, 2018, wherein we noted as discussed in Note 3, the Strasburg-Franklin Local School District adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
December 11, 2018

OHIO AUDITOR OF STATE KEITH FABER



STRASBURG – FRANKLIN LOCAL SCHOOL DISTRICT

TUSCARAWAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 5, 2019**