



OHIO AUDITOR OF STATE
KEITH FABER



**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

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ROSS COUNTY**

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OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT

Zane Trace Local School District
Ross County
946 State Route 180
Chillicothe, Ohio 45601

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no 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, the major fund, and the aggregate remaining fund information of the Zane Trace Local School District, Ross County, Ohio, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

February 5, 2019

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ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The discussion and analysis of the Zane Trace Local School District's (the District) financial performance provides an overview and analysis 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 our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial performance.

Financial Highlights

- ▶ The liabilities and deferred inflows of Zane Trace Local School District exceeded its assets and deferred outflows at June 30, 2018 by \$94,239. Of this amount, \$11,302,798 represents net investment in capital assets and net position amounts restricted for specific purposes. The remaining deficit of \$11,419,246 represents unrestricted net position.
- ▶ In total, net position of governmental activities increased by \$6,643,976 which represents a 99.05 percent increase from 2017.
- ▶ General revenues accounted for \$12,729,933 or 80.46 percent of and revenues. Program specific revenues in the form of charges for services and sales and operating grants and contributions accounted for \$3,092,042 or 19.54 percent of total revenues of \$15,821,975.
- ▶ The District had \$9,253,036 in expenses related to governmental activities; only \$3,092,042 of these expenses were offset by program specific charges for services and sales and operating grants and contributions. General revenues (primarily taxes and grants and entitlements) of \$12,729,933 were used to provide for the remainder of these programs.
- ▶ The District recognizes one major governmental fund: the General Fund. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the District combined. The General Fund had \$14,109,739 in revenues and \$14,407,747 in expenditures in fiscal year 2018.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of GASB Statement No. 34, and are organized so the reader can understand the Zane Trace Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: the government-wide financial statements, fund financial statements and notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Reporting the District as a Whole

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector business. The statement of net position and statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. These statements include all assets, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net position presents information on all of the District's assets, deferred outflows, liabilities, and deferred inflows with the difference reported as net position. Over time, increases and decreases in net position are important because they serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. The cause of this change may be the result of several factors, some financial and some not. Nonfinancial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required but unfunded educational programs, and other factors. Ultimately, the District's goal is to provide services to our students, not to generate profits as commercial entities do.

The statement of activities presents information showing how the District's net position changed during the recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

In both of the government-wide financial statements, the District activities are shown as governmental activities. All of the District's programs and services, except for the fiduciary fund activities, are reported here including instructional services, support services and operation of non-instructional services. These services are funded primarily by taxes, tuition and fees, and intergovernmental revenues including federal and state grants and other shared revenues.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds begins on page 17. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's only major governmental fund is the General Fund.

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into one of three categories: governmental, proprietary and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements. 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.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Fund

The District maintains only one proprietary fund, which is an internal service fund. Since the internal service fund operates on a break-even, cost-reimbursement basis, the District reports it as a proprietary fund using the full accrual basis of accounting. The internal service fund is included with governmental activities on the government-wide financial statements.

Fiduciary Funds

The District's fiduciary funds include agency funds. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

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.

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Government-Wide Financial Analysis

Recall that the statement of net position provides the perspective of the District as a whole, showing assets, deferred outflows, liabilities, deferred inflows and the difference between them (net position). Table 1 provides a summary of the District's net position for 2018 compared to fiscal year 2017:

Table 1
Net Position at Year End

	2018	Restated 2017	Change
<u>Assets:</u>			
Current and Other Assets	\$11,812,181	\$11,180,273	\$631,908
Capital Assets, Net	11,893,421	12,200,679	(307,258)
<i>Total Assets</i>	<u>23,705,602</u>	<u>23,380,952</u>	<u>324,650</u>
<u>Deferred Outflows of Resources:</u>			
Deferred Charge on Refunding	1,166	1,943	(777)
Pension	4,722,734	3,664,083	1,058,651
OPEB	199,520	25,404	174,116
<i>Total Deferred Outflows of Resources</i>	<u>4,923,420</u>	<u>3,691,430</u>	<u>1,231,990</u>
<u>Liabilities:</u>			
Current and Other Liabilities	1,861,531	1,753,036	108,495
Long-Term Liabilities:			
Due Within One Year	681,485	587,920	93,565
Due in More Than One Year:			
Net Pension Liability	14,866,742	20,034,378	(5,167,636)
Net OPEB Liability	3,304,386	4,111,034	(806,648)
Other Amounts	2,389,997	2,834,228	(444,231)
<i>Total Liabilities</i>	<u>23,104,141</u>	<u>29,320,596</u>	<u>(6,216,455)</u>
<u>Deferred Inflows of Resources:</u>			
Property Taxes	4,571,750	4,214,439	357,311
Pension	674,872	275,562	399,310
OPEB	372,498	0	372,498
<i>Total Deferred Inflows of Resources</i>	<u>5,619,120</u>	<u>4,490,001</u>	<u>1,129,119</u>
<u>Net Position:</u>			
Net Investment in Capital Assets	9,810,955	9,612,114	198,841
Restricted	1,514,052	1,322,814	191,238
Unrestricted	(11,419,246)	(17,673,143)	6,253,897
<i>Total Net Position</i>	<u>(\$94,239)</u>	<u>(\$6,738,215)</u>	<u>\$6,643,976</u>

The net pension liability (NPL) is the largest single liability reported by the District at June 30, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement 27." For fiscal year 2018, the 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.

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems 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 benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

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

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

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

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

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

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 (\$2,652,585) to (\$6,738,215).

Current and other assets increased \$631,908 from fiscal year 2017 due primarily to an increase in cash and cash equivalents, property taxes receivable, and income taxes receivable. Capital assets decreased by \$307,258 or 2.52 percent.

Current (other) liabilities increased by \$108,494 or 6.19 percent due mostly to an increase in intergovernmental payable.

Long-term liabilities decreased by \$6,324,950 or 25.79 percent as the result of an increase in net pension liability.

The District's largest portion of net position is net investment in capital assets. The District used these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to pay these liabilities.

The balance of \$1,514,052 in restricted net position is subject to external restrictions on how they may be used.

Table 2 shows the changes in net position for fiscal year 2018 and provides a comparison to fiscal year 2017.

Table 2
Changes In Net Position
Governmental Activities

	2018	Restated 2017	Change
<u>Revenues:</u>			
<i>Program Revenues:</i>			
Charges for Services and Sales	\$1,568,390	\$1,374,601	\$193,789
Operating Grants and Contributions	1,523,652	908,949	614,703
<i>General Revenues:</i>			
Property Taxes	4,808,697	4,921,079	(112,382)
Income Taxes	1,433,414	1,474,820	(41,406)
Unrestricted Grants and Entitlements	6,296,108	7,473,212	(1,177,104)
Investment Earnings	6,283	7,627	(1,344)
Insurance Recoveries	0	7,194	(7,194)
Miscellaneous	185,431	187,732	(2,301)
Total Revenues	15,821,975	16,355,214	(533,239)

(Continued)

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Table 2
Changes in Net Position (Continued)

	2018	Restated 2017	Change
<u>Expenses:</u>			
<i>Program Expenses:</i>			
<i>Instruction:</i>			
Regular	4,160,794	7,895,691	(3,734,897)
Special	865,748	1,157,673	(291,925)
Vocational	2,980	6,445	(3,465)
Student Intervention Services	2,371	15,502	(13,131)
Other	230,845	129,581	101,264
<i>Support Services:</i>			
Pupils	639,125	1,044,203	(405,078)
Instructional Staff	154,951	277,661	(122,710)
Board of Education	129,500	199,148	(69,648)
Administration	482,492	912,248	(429,756)
Fiscal	329,334	375,250	(45,916)
Operation and Maintenance of Plant	812,585	1,252,911	(440,326)
Pupil Transportation	571,315	772,422	(201,107)
Central	109,193	195,807	(86,614)
Operation of Non-Instructional Services	403,167	575,519	(172,352)
Extracurricular Activities	249,179	370,324	(121,145)
Interest and Fiscal Charges	109,457	137,840	(28,383)
<i>Total Expenses</i>	<u>9,253,036</u>	<u>15,318,225</u>	<u>(6,065,189)</u>
<i>Change in Net Position</i>	6,568,939	1,036,989	5,531,950
Net Position-Beginning of Year, As Restated	<u>(6,663,178)</u>	N/A	N/A
Net Position-End of Year	<u>(\$94,239)</u>	<u>(\$6,738,215)</u>	<u>\$6,643,976</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 Statement No. 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$25,404 computed under GASB Statement No. 45. GASB Statement No. 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB Statement No. 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 Statement No. 75, the 2018 statements report negative OPEB expense of \$499,039. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB Statement No. 75	\$ 9,253,036
Negative OPEB expense under GASB Statement No. 75	499,039
2018 contractually required contribution	34,189
Adjusted 2018 program expenses	<u>9,786,264</u>
Total 2017 program expenses under GASB Statement No. 45	15,318,225
Decrease in program expenses not related to OPEB	<u>\$ (5,531,961)</u>

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

The most significant program expenses for the District are Regular Instruction, Special Instruction, Operation and Maintenance of Plant, Pupils, Pupil Transportation and Administration. These programs account for 81.40 percent of the total governmental activities. Regular Instruction, which accounts for 44.97 percent of the total, represents costs associated with providing general educational services. Special Instruction, which represents 9.36 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Operation and Maintenance of Plant, which represents 8.78 percent of the total, represent costs associated with operating and maintaining the District's facilities. Pupils, which represents 6.91 percent of the total, represents costs associated with activities designed to assess and improve the well-being of pupils and supplement the teaching process. Pupil Transportation, which represents 6.17 percent of the total, represents costs associated with providing transportation services for student between home and school and to school activities. Administration, which represents 5.21 percent of the total, represents costs associated with the overall administrative responsibility for each building and the District as a whole.

The change in revenues consists of an increase of \$808,492 or 35.41 percent in program revenue from last year and a decrease of \$1,341,731 or 9.53 percent in general revenues. The increase in program revenues is due to an increase of \$614,703 or 67.63 percent in charges for services. The decrease in general revenues is due to a decrease of \$1,177,104 or 15.75 percent in unrestricted grants and entitlements.

The total expenses for governmental activities decreased \$6,065,189 or 39.59 percent and is primarily attributable to decreases in Regular Instruction, Operation and Maintenance of Plant, Administration and Pupils.

The majority of the funding for the most significant programs indicated above is from property taxes, income taxes, charges for services and sales and grants and entitlements not restricted for specific programs. Property taxes, income taxes, charges for services and sales and grants and entitlements not restricted for specific programs account for 93.22 percent of total revenues.

Governmental Activities

Over the past several fiscal years, the District has remained in stable financial condition. This has been accomplished through strong voter support and good fiscal management. The District is heavily dependent on property taxes and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Property taxes makes up 30.39 percent and intergovernmental revenue makes up 49.42 percent of the total revenue for the governmental activities in fiscal year 2018.

The Ohio Legislature passed H.B. 920 (1976) and changed the way property taxes function in the State. The overall revenue generated by a levy will not increase solely as a result of inflation. As an example, the District would receive from a home valued at \$100,000 and taxed at 1.0 mill, \$35.00 annually. If three years later the home were reappraised and the value increased to \$200,000 (and this increase in value is comparable to other property owners) the effective tax rate would become 0.5 mill and the District would still receive \$35.00 annually. Therefore, the District must regularly return to the voters to maintain a constant level of service.

The District's intergovernmental revenue consists of school foundation basic allowance, homestead and rollback property tax allocation, and federal and state grants. During fiscal year 2018, the District received \$6,243,338 through the State's foundation program, which represents 39.46 percent of the total revenue for the governmental activities. The District relies heavily on this state funding to operate at the current levels of service.

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Instruction accounts for 56.68 percent of governmental activities program expenses. Support services expenses make up 34.88 percent of governmental activities expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2018 compared with fiscal year 2017. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Net Cost of Governmental Activities

	Total Cost of Services 2018	Net Cost of Services 2018	Total Cost of Services 2017	Net Cost of Services 2017
<i>Program Expenses:</i>				
Instruction	\$5,262,738	\$2,994,319	\$9,204,892	\$7,705,671
Support Services	3,228,495	3,096,162	5,029,650	4,935,061
Operation of Non-Instructional Services	403,167	(91,723)	575,519	61,891
Extracurricular Activities	249,179	52,779	370,324	194,212
Interest and Fiscal Charges	109,457	109,457	137,840	137,840
Total Expenses	<u>\$9,253,036</u>	<u>\$6,160,994</u>	<u>\$15,318,225</u>	<u>\$13,034,675</u>

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting (See Note 2 for discussion of significant accounting policies). All governmental funds had total revenues and other financing sources of \$15,931,394 and expenditures of \$16,115,263.

Total governmental fund balance decreased by \$183,869. The decrease in fund balance for the year was most significant in the General Fund, which decreased by \$177,559 as the result of expenditures exceeding revenues during fiscal year 2018. Revenue increases were the most significant in income taxes which is the result of the passing of an income tax levy effective January 2016.

Budget Highlights - General Fund

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

During the course of fiscal year 2018, the District amended its General Fund budget several times. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisor's flexibility for site management.

The District prepares and monitors a detailed cashflow plan for the General Fund. Actual cashflow is compared to monthly and year-to-date estimates.

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

For the General Fund, the final budget basis revenue was \$14,321,821 representing a \$382,712 increase from the original budget estimates of \$13,939,109. The final budget reflected a 2.75 percent increase from the original budgeted amount. Most of this difference was due to receiving more intergovernmental and income tax revenue than was originally estimated. For the General Fund, the final budget basis expenditures were \$14,375,893 representing an increase of \$2,111,349 from the original budget expenditures of \$12,264,544. The final budget reflected an 17.22 percent increase from the original budgeted amount. Most of this difference was due to the increase in regular instruction.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2018, the District had \$22.4 million invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, textbooks, and vehicles, of which all was in governmental activities. That total carries an accumulated depreciation of \$10.5 million. Table 4 shows fiscal year 2018 balances compared to fiscal year 2017.

Table 4
Capital Assets & Accumulated Depreciation at Year End

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
<i>Nondepreciable Capital Assets:</i>		
Land	\$137,750	\$137,750
<i>Depreciable Capital Assets:</i>		
Land Improvements	418,118	411,016
Buildings and Improvements	17,599,426	17,599,426
Furniture, Fixtures, Equipment and Textbooks	3,009,242	2,951,618
Vehicles	1,291,238	1,419,877
<i>Total Capital Assets</i>	<u>22,455,774</u>	<u>22,519,687</u>
 <i>Less Accumulated Depreciation:</i>		
Land Improvements	(302,825)	(284,779)
Buildings and Improvements	(6,870,360)	(6,525,749)
Furniture, Fixtures, Equipment and Textbooks	(2,398,890)	(2,296,490)
Vehicles	(990,278)	(1,211,990)
<i>Total Accumulated Depreciation</i>	<u>(10,562,353)</u>	<u>(10,319,008)</u>
<i>Capital Assets, Net</i>	<u>\$11,893,421</u>	<u>\$12,200,679</u>

More detailed information pertaining to the District's capital asset activity can be found in the notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)

Debt Administration

At June 30, 2018, the District had \$2,071,126 in general obligation debt, certificate of participation obligations and capital leases outstanding with \$647,011 due within one year. Table 5 summarizes amounts outstanding for fiscal year 2018 compared to fiscal year 2017.

Table 5
Outstanding Debt, Governmental Activities at Year End

<u>Purpose</u>	<u>2018</u>	<u>2017</u>
2009 Refunding Bonds	\$350,000	\$685,000
Capital Appreciation Bonds	159,999	159,999
Certificate of Participation	1,451,000	1,655,000
Capital Leases	<u>110,126</u>	<u>69,666</u>
Total	<u>\$2,071,125</u>	<u>\$2,569,665</u>

More detailed information pertaining to the District's long-term debt activity can be found in the notes to the basic financial statements.

Current Issues

The Zane Trace Local School District constantly works on becoming financially stable. While the District carries a reasonable cash balance, our projections show that the expenditures will exceed our revenue in each fiscal year reflected on the Five Year Forecast. The passage of the new school district income tax levy effective January 1, 2016 has improved the districts' financial condition outlook for the next five years (pending renewal in 2020). Each and every financial decision is considered by the effect it will have related to maintaining the District's continued financial stability.

As with every School District in the State of Ohio, State funding is an unpredictable issue. The State continues to provide the majority of the revenue received within our District. Current revenue projections do not seem to reflect increases that compare to the continuing operational increases the District faces. The State continues to issue educational mandates and requirements without any funding to cover those added expenses, along with reducing federal funding.

With careful planning and monitoring of our finances, the Zane Trace Board of Education is committed to providing a quality education for our students and a secure financial future for the District.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information contact Tambrea L. Irwin, Treasurer at Zane Trace Local School District, 946 State Route 180, Chillicothe, OH 45601 or email Tirwin@ztlisd.org.

ZANE TRACE LOCAL SCHOOL DISTRICT

Statement of Net Position

June 30, 2018

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$4,436,112
Cash and Cash Equivalents with Fiscal Agents	491,254
Property Taxes Receivable	4,975,364
Income Taxes Receivable	631,999
Intergovernmental Receivable	646,201
Materials and Supplies Inventory	12,141
Inventory Held for Resale	9,663
Prepaid Items	9,567
<u>Restricted Assets:</u>	
Equity Pooled in Cash and Cash Equivalents	599,880
Nondepreciable Capital Assets	137,750
Depreciable Capital Assets, Net	11,755,671
<i>Total Assets</i>	<i>23,705,602</i>
<u>Deferred Outflows of Resources:</u>	
Deferred Charge on Refunding	1,166
Pension	4,722,734
OPEB	199,520
<i>Total Deferred Outflows of Resources</i>	<i>4,923,420</i>
<u>Liabilities:</u>	
Accounts Payable	13,266
Accrued Wages and Benefits	1,139,450
Intergovernmental Payable	288,982
Accrued Interest Payable	6,742
Claims Payable	409,900
Matured Compensated Absences Payable	1,691
Early Retirement Incentive Payable	1,500
Long-Term Liabilities:	
Due within One Year	681,485
Due in More Than One Year:	
Net Pension Liability	14,866,742
Net OPEB Liability	3,304,386
Other Amounts Due in More Than One Year	2,389,997
<i>Total Liabilities</i>	<i>23,104,141</i>
<u>Deferred Inflows of Resources:</u>	
Property Taxes	4,571,750
Pension	674,872
OPEB	372,498
<i>Total Deferred Inflows of Resources</i>	<i>5,619,120</i>
<u>Net Position:</u>	
Net Investment in Capital Assets	9,810,955
<u>Restricted for:</u>	
Set-Asides	599,880
Debt Service	410,705
Other Purposes	503,467
Unrestricted	(11,419,246)
<i>Total Net Position</i>	<i>(\$94,239)</i>

See accompanying notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT

Statement of Activities

For the Fiscal Year Ended June 30, 2018

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
<i>Instruction:</i>				
Regular	\$4,160,794	\$1,130,486	\$280,031	(\$2,750,277)
Special	865,748	0	838,907	(26,841)
Vocational	2,980	0	18,995	16,015
Student Intervention Services	2,371	0	0	(2,371)
Other	230,845	0	0	(230,845)
<i>Support Services:</i>				
Pupils	639,125	0	50,638	(588,487)
Instructional Staff	154,951	0	0	(154,951)
Board of Education	129,500	0	0	(129,500)
Administration	482,492	24,787	8,138	(449,567)
Fiscal	329,334	0	0	(329,334)
Operation and Maintenance of Plant	812,585	0	0	(812,585)
Pupil Transportation	571,315	0	40,695	(530,620)
Central	109,193	0	8,075	(101,118)
<i>Operation of Non-Instructional Services:</i>				
Food Service	403,167	232,847	262,043	91,723
Extracurricular Activities	249,179	180,270	16,130	(52,779)
<i>Debt Service:</i>				
Interest and Fiscal Charges	109,457	0	0	(109,457)
<i>Total Governmental Activities</i>	\$9,253,036	\$1,568,390	\$1,523,652	(6,160,994)
<u>General Revenues:</u>				
<i>Property Taxes Levied for:</i>				
General Purposes				4,412,164
Debt Service				327,831
Capital Outlay				68,702
Income Taxes				1,433,414
Grants and Entitlements not Restricted to Specific Programs				6,296,108
Investment Earnings				6,283
Miscellaneous				185,431
<i>Total General Revenues</i>				12,729,933
Change in Net Position				6,568,939
<i>Net Position at Beginning of Year, As Restated</i>				(6,663,178)
<i>Net Position at End of Year</i>				(\$94,239)

See accompanying notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT

*Balance Sheet
Governmental Funds
June 30, 2018*

	General	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$3,415,778	\$877,383	\$4,293,161
Property Taxes Receivable	4,510,838	464,526	4,975,364
Income Taxes Receivable	631,999	0	631,999
Intergovernmental Receivable	520,479	125,722	646,201
Prepaid Items	9,567	0	9,567
Inventory Held for Resale	0	9,663	9,663
Materials and Supplies Inventory	12,141	0	12,141
<i>Restricted Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	599,880	0	599,880
<i>Total Assets</i>	<u>\$9,700,682</u>	<u>\$1,477,294</u>	<u>\$11,177,976</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances:</u>			
<u>Liabilities:</u>			
Accounts Payable	\$9,660	\$3,606	\$13,266
Accrued Wages and Benefits	1,115,082	24,368	1,139,450
Intergovernmental Payable	274,959	14,023	288,982
Matured Compensated Absences Payable	1,691	0	1,691
Early Retirement Incentive Payable	1,500	0	1,500
<i>Total Liabilities</i>	<u>1,402,892</u>	<u>41,997</u>	<u>1,444,889</u>
<u>Deferred Inflows of Resources:</u>			
Property Taxes	4,260,951	391,682	4,652,633
Income Taxes	165,500	0	165,500
Unavailable Revenue	0	61,188	61,188
<i>Total Deferred Inflows of Resources</i>	<u>4,426,451</u>	<u>452,870</u>	<u>4,879,321</u>
<u>Fund Balances:</u>			
Nonspendable	21,708	0	21,708
Restricted	599,880	982,427	1,582,307
Assigned	256,829	0	256,829
Unassigned	2,992,922	0	2,992,922
<i>Total Fund Balances</i>	<u>3,871,339</u>	<u>982,427</u>	<u>4,853,766</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$9,700,682</u>	<u>\$1,477,294</u>	<u>\$11,177,976</u>

See accompanying notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 June 30, 2018*

Total Governmental Funds Balances		\$4,853,766
<i>Amounts reported for governmental activities in 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.		11,893,421
Some of the District's receivables will be collected after fiscal year-end, however are not available soon enough to pay for the current period's expenditures and therefore are deferred inflows in the funds. These receivables consist of:		
Property taxes	80,883	
Income taxes	165,500	
Intergovernmental revenues	61,188	
Total		307,571
Unamortized deferred charges from the issuance of refunding bonds represent deferred charges which do not provide current financial resources and are therefore not reported in the funds.		1,166
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:		
General obligation bonds	(509,999)	
Accretion on bonds	(145,108)	
Premium on bonds	(12,506)	
Accrued interest on bonds	(6,742)	
Capital leases	(110,127)	
Certificate of participation	(1,451,000)	
Compensated absences	(842,742)	
Total liabilities not reported in funds		(3,078,224)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the governmental funds:		
Deferred Outflows - Pension	4,722,734	
Deferred Outflows - OPEB	199,520	
Deferred Inflows - Pension	(674,872)	
Deferred Inflows - OPEB	(372,498)	
Net Pension Liability	(14,866,742)	
Net OPEB Liability	(3,304,386)	
Total		(14,296,244)
An internal service fund is used by management to charge the costs of insurance activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		224,305
<i>Net Position of Governmental Activities</i>		(\$94,239)

See accompanying notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2018

	General	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Property Taxes	\$4,422,712	\$397,457	\$4,820,169
Income Taxes	1,453,369	0	1,453,369
Intergovernmental	6,888,524	833,607	7,722,131
Interest	6,226	57	6,283
Tuition and Fees	1,111,164	0	1,111,164
Gifts and Donations	33,910	21,262	55,172
Extracurricular Activities	50,106	174,273	224,379
Charges for Services	0	232,847	232,847
Miscellaneous	143,728	41,703	185,431
<i>Total Revenues</i>	<u>14,109,739</u>	<u>1,701,206</u>	<u>15,810,945</u>
<u>Expenditures:</u>			
<i>Current:</i>			
<i>Instruction:</i>			
Regular	7,532,845	244,606	7,777,451
Special	1,163,727	234,747	1,398,474
Vocational	2,980	0	2,980
Student Intervention Services	4,374	0	4,374
Other	230,845	0	230,845
<i>Support Services:</i>			
Pupils	1,066,431	48,971	1,115,402
Instructional Staff	276,014	0	276,014
Board of Education	137,538	0	137,538
Administration	881,873	0	881,873
Fiscal	426,824	9,265	436,089
Operation and Maintenance of Plant	1,087,869	19,174	1,107,043
Pupil Transportation	890,548	1,178	891,726
Central	147,244	16,198	163,442
Operation of Non-Instructional Services	0	566,200	566,200
Extracurricular Activities	186,450	213,189	399,639
<i>Debt Service:</i>			
Principal Retirement	283,989	335,000	618,989
Interest and Fiscal Charges	88,196	18,988	107,184
<i>Total Expenditures</i>	<u>14,407,747</u>	<u>1,707,516</u>	<u>16,115,263</u>
<i>Excess of Revenues Over/(Under) Expenditures</i>	<u>(298,008)</u>	<u>(6,310)</u>	<u>(304,318)</u>
<u>Other Financing Sources:</u>			
Inception of Capital Lease	120,449	0	120,449
<i>Total Other Financing Sources</i>	<u>120,449</u>	<u>0</u>	<u>120,449</u>
<i>Net Change in Fund Balances</i>	(177,559)	(6,310)	(183,869)
<i>Fund Balances at Beginning of Year</i>	4,048,898	988,737	5,037,635
<i>Fund Balances at End of Year</i>	<u>\$3,871,339</u>	<u>\$982,427</u>	<u>\$4,853,766</u>

See accompanying notes to the basic financial statements

ZANE TRACE LOCAL SCHOOL DISTRICT
*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	(\$183,869)
<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. This is the amount by which depreciation exceeded capital outlay in the current period	(307,258)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues consist of	
Property taxes	(11,472)
Income taxes	(19,955)
Intergovernmental	42,457
Total revenues not reported in the funds	11,030
Repayment of bond, certificate of participation and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position	618,989
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due	1,535
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of	
Amortization of premium on bonds	8,337
Accretion on bonds	(11,368)
Amortization of Deferred Charges on bonds	(777)
Compensated absences	(144,843)
Total expenditures not reported in the funds	(148,651)
Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities	
Inception of Capital Leases	(120,449)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.	1,136,978
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities	5,223,228
An internal service fund is used by management to charge the costs of insurance to individual funds. The net revenue of the internal service fund is reported as governmental activities.	337,406
<i>Change in Net Position of Governmental Activities</i>	\$6,568,939

See accompanying notes to the basic financial statements

ZANE TRACE LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Property Taxes	\$4,866,970	\$4,663,126	\$4,663,126	\$0
Income Taxes	1,451,485	1,545,330	1,545,330	0
Intergovernmental	6,473,531	6,892,075	6,892,075	0
Interest	5,342	5,688	5,688	0
Tuition and Fees	1,006,900	1,072,000	1,072,000	0
Miscellaneous	134,881	143,602	143,602	0
<i>Total Revenues</i>	13,939,109	14,321,821	14,321,821	0
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	6,382,095	7,480,777	7,480,777	0
Special	1,004,300	1,177,191	1,173,025	4,166
Vocational	2,542	2,980	2,980	0
Student Intervention Services	3,732	4,374	4,374	0
Other	227,425	266,576	266,576	0
<i>Support Services:</i>				
Pupils	892,872	1,046,580	1,042,986	3,594
Instructional Staff	234,326	274,665	274,658	7
Board of Education	132,048	154,780	154,780	0
Administration	740,283	867,723	867,723	0
Fiscal	367,381	430,626	430,627	(1)
Operation and Maintenance of Plant	981,094	1,149,990	1,149,990	0
Pupil Transportation	779,827	914,075	914,073	2
Central	125,387	146,973	146,972	1
<i>Extracurricular Activities:</i>				
Academic Oriented Activities	16,832	19,730	19,730	0
Sport Oriented Activities	122,932	144,095	144,095	0
School and Public Service Co-Curricular Activities	8,244	9,663	9,663	0
<i>Debt Service:</i>				
Principal	174,039	204,000	204,000	0
Interest	69,185	81,095	81,095	0
<i>Total Expenditures</i>	12,264,544	14,375,893	14,368,124	7,769
Net Change in Fund Balances	1,674,565	(54,072)	(46,303)	7,769
<i>Fund Balance at Beginning of Year</i>	3,495,045	3,495,045	3,495,045	0
Prior Year Encumbrances Appropriated	184,088	184,088	184,088	0
<i>Fund Balance at End of Year</i>	\$5,353,698	\$3,625,061	\$3,632,830	\$7,769

See accompanying notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT

Statement of Fund Net Position

Proprietary Fund

June 30, 2018

	<u>Governmental Activities Internal Service</u>
<u>Assets:</u>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$142,951
Cash and Cash Equivalents with Fiscal Agents	<u>491,254</u>
<i>Total Current Assets</i>	<u>634,205</u>
<u>Liabilities:</u>	
<i>Current Liabilities:</i>	
Claims Payable	<u>409,900</u>
<i>Total Current Liabilities</i>	<u>409,900</u>
<u>Net Position:</u>	
Unrestricted	<u>224,305</u>
<i>Total Net Position</i>	<u><u>\$224,305</u></u>

See accompanying notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2018

	Governmental Activities
	Internal Service
<u>Operating Revenues:</u>	
Charges for Services	\$2,736,256
<i>Total Operating Revenues</i>	<i>2,736,256</i>
<u>Operating Expenses:</u>	
Purchased Services	239,083
Claims	2,159,767
<i>Total Operating Expenses</i>	<i>2,398,850</i>
<i>Operating Income</i>	337,406
<i>Net Position at Beginning of Year</i>	<i>(113,101)</i>
<i>Net Position at End of Year</i>	<i>\$224,305</i>

See accompanying notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT

Statement of Cash Flow

Proprietary Fund

For the Fiscal Year Ended June 30, 2018

	<u>Governmental Activities</u> <u>Internal Service</u>
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Interfund Charges	\$2,736,256
Cash Payments for Goods and Services	(239,083)
Cash Payments for Claims	<u>(2,123,967)</u>
<i>Net Cash from Operating Activities</i>	373,206
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>260,999</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$634,205</u></u>
<u>Reconciliation of Operating Income to Net Cash from Operating Activities:</u>	
<i>Operating Income</i>	\$337,406
<u>Adjustments to Reconcile Operating Income to Net Cash from Operating Activities:</u>	
<i>Increase(Decrease) in Liabilities:</i>	
Claims Payable	<u>35,800</u>
Total Adjustments	<u>35,800</u>
<i>Net Cash from Operating Activities</i>	<u><u>\$373,206</u></u>

See accompanying notes to the basic financial statements.

ZANE TRACE LOCAL SCHOOL DISTRICT
Statement of Fiduciary Assets & Liabilities
Fiduciary Fund
June 30, 2018

	<u>Agency</u>
<u>Assets:</u>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	<u>\$26,032</u>
<u>Liabilities:</u>	
<i>Current Liabilities:</i>	
Undistributed Monies	<u>\$26,032</u>

See accompanying notes to the basic financial statements.

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ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 1 - DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY

Description of the District

Zane Trace Local School 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 federal guidelines.

The District was established in 1965 through the consolidation of existing land areas and school districts. The District serves an area of approximately 104 square miles. It is located in Ross County, and includes all of the Village of Kingston and portions of Green North, Green South, Springfield, and Colerain Townships. It is staffed by 59 non-certificated employees, 86 certificated full time teaching personnel and 4 administrative employees who provide services to 1,341 students and other community members. The District currently operates one instructional building.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Zane Trace Local School 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; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or 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. The District does not have any component units.

The District participates in seven organizations, six of which are defined as jointly governed organizations and two as insurance purchasing pools. These organizations are the South Central Ohio Computer Association/META, the Pickaway-Ross Career and Technology Center, the Great Seal Education Network of Tomorrow, Coalition of Rural and Appalachian Schools, South Central Ohio Insurance Consortium, Pilasco-Ross Special Education Regional Resource Center, the School Comp Workers Compensation Group Rating Plan, and the Ohio School Plan. These organizations are presented in Notes 18 and 19 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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

A. Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

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 statement of net position presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self financing or draws from the general revenues of the District.

Fund Financial Statements

During the fiscal year, the District segregates transactions related to certain District functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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

Governmental Funds

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

General Fund - The General Fund is the operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

The other governmental funds of the District account for grants and other resources, food service and capital projects whose use is restricted to a particular purpose.

Proprietary Fund

The proprietary fund focus is on the determination of the change in net position, financial position and cash flows and is classified as internal service. The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the District, or to other governments, on a cost reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical and prescription drug benefits to employees.

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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's fiduciary funds are a private purpose trust fund used to account for assets held for individuals. The District's agency funds account for student activity programs and payroll checking account.

C. Measurement Focus

Government-wide Financial Statements

The government-wide statements are prepared using the economic resources measurement focus. All assets, deferred outflows, liabilities and deferred inflows associated with the operation of the District are included on the statement of net position. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets 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.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of revenues, expenses, and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities

The agency fund does not report a measurement focus as it does not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The government-wide financial statements and the financial statements of the internal service fund and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows/outflows, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means that the resources are collectible 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 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 non-exchange transactions must also be available before it can be recognized.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: property taxes available for advance and grants.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes 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, deferred outflows of resources include a deferred charge on refunding, for pension and OPEB reported in the government-wide statement of net position. 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. The deferred outflows of resources related to pension and OPEB are explained in Notes 12 and 13.

In addition to the liabilities, the statement of net position reports 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, pension, OPEB 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 on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable revenue includes intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 12 and 13)

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. 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, except for (1) principal and interest on long term debt and capital lease obligations which is recorded when due and (2) the costs of accumulated unpaid vacation and sick leave are reported as fund liabilities as payments come due each period upon the occurrence of employer resignations and terminations. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

E. Cash and Cash Equivalents

To improve cash management, all cash received by the District is pooled. Monies for all funds, are maintained in this pool. Individual fund integrity is maintained through the District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2018 amounted to \$6,226 which includes \$1,592 assigned from other District funds.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the District are presented on the financial statements as cash equivalents.

F. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed when used. Inventories consist of materials and supplies held for consumption and donated and purchased food.

G. Prepaid Items

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

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or are imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent cash and cash equivalents legally required to be set-aside by the District for capital improvements. See Note 18 for additional information regarding set-asides.

I. Capital Assets

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

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

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	30 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles	4 - 8 years

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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

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 vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year-end, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for classified and certified employees after ten years of current service with the District.

The entire compensated absence liability is reported on the government-wide financial statements. On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements.

K. Pensions

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.

L. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term liabilities 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 special termination of benefits 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 in the current year. Bonds are recognized as a liability on the fund financial statements when due. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefits payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

M. Net Position

Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net position invested in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their 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. Net position restricted for other purposes include activities for music and athletic programs and federal and state grants restricted to expenditures for specified purposes.

ZANE TRACE LOCAL SCHOOL DISTRICT

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 an expense is incurred for purposes for which both restricted and unrestricted net position is available.

N. Fund Balance Reserves

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. Fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent because they are either not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because either (a) constraints imposed by law through constitutional provisions, charter requirements or enabling legislation; or (b) constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.

Committed – amounts that can only be used for specific purposes pursuant to constraints imposed by formal ordinances or resolutions of the Board of Education – the District’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board of Education removes the specified use by taking the same type of action as when imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – amounts constrained by the District’s “intent” to be used for specific purposes, but are neither restricted nor committed. The Board of Education, Superintendent and Treasurer have the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted or committed.

Unassigned – this is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the District considers restricted funds to have been spent first. When expenditures are incurred for which committed, assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Education has provided otherwise in its commitment or assignment actions.

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the self-insurance service that is the primary activity of that fund.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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

P. Interfund Transactions

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 and after nonoperating revenues/expenses in the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the statement of activities. The District had no such transactions for fiscal year 2018.

Q. Estimates

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

R. Budgetary Process

All funds, other than the agency fund, 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. Any revisions that alter the total of any object appropriation must be approved by the Board of Education.

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 budgeted amounts in the budgetary statement reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed.

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 year.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION

For fiscal year 2018, the District implemented GASB Statement No. 85, *Omnibus 2017*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and related guidance from (GASB) Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (and Certain Issues Related to OPEB Plan Reporting)*.

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the District’s fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported June 30, 2017:

Net Position June 30, 2017	(\$2,652,585)
<i>Adjustments:</i>	
Net OPEB Liability	(4,035,997)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>25,404</u>
Restated Net Position June 30, 2017	<u><u>(\$6,663,178)</u></u>

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.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations, and changes in fund balances 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, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) – 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 GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a restricted, committed or assigned fund balance (GAAP basis).
4. Certain funds are maintained as separate funds for accounting and budgetary purposes (budget basis) but do not meet the criteria for separate reporting in the financial statements (GAAP basis) and are reported in the General Fund in accordance with GASB Statement No. 54.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING- (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

<u>Net Change in Fund Balance</u>	<u>General</u>
GAAP Basis	(\$177,559)
<i>Adjustments:</i>	
Revenue Accruals	335,388
Expenditure Accruals	(407,278)
Other Financing Sources	(120,449)
Encumbrances	325,504
<i>Prospective Difference:</i>	
Activity of Funds Reclassified For GAAP Reporting Purposes	<u>(1,909)</u>
Budget Basis	<u>(\$46,303)</u>

NOTE 5 - 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 accounts, including passbook accounts.

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.

ZANE TRACE LOCAL SCHOOL DISTRICT

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018*

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

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 payment of 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, its political subdivisions or other units or agencies of this state or its political subdivision;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed two hundred seventy days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time;
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies; and
9. Time certificates of deposit or savings or deposits accounts, including, but not limited to, passbook accounts.

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

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

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

At June 30, 2018, the District's internal service fund had a balance of \$491,254 with fiscal agents. \$21,600 was with the Jefferson Health Plan (formerly known as Ohio Mid Eastern Regional Education Service Agency Health Benefits Program (OME-RESA), a risk sharing, claims servicing, and insurance purchasing pool. \$469,654 was with the South Central Ohio Insurance Consortium (SCOIC), a jointly governed organization (see Note 18). The balances were held by Jefferson Health Plan and SCOIC in pooled accounts which are representative of numerous entities and therefore cannot be included in the risk disclosures reported by the District. Disclosures for the Jefferson Health Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center (ESC). To obtain financial information, write to the Jefferson Health Plan, Treasurer, Jefferson County ESC, 2023 Sunset Blvd. Steubenville, Ohio 43952. Disclosures for SCOIC as a whole may be obtained from the fiscal agent, Bloom-Carroll Local School District, 5240 Plum Road, Carroll, Ohio 43112.

Deposits: Custodial credit risk is the risk that, in the event of a bank failure, the District may not be able to recover deposits on collateral securities that are the possession of an outside party. As of June 30, 2018, all of the District's bank balance of \$5,835,903 was either covered by Federal Deposit Insurance or collateral was held by the pledging banks trust department not in the District's name.

The District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by:

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 % of the deposits being secured; or

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% of the deposits being secured or a rate set by the Treasurer of State.

The District's only financial institution is enrolled in the OPCS.

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 of 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, public utility and tangible personal property (used in public utility) located in the District. Real property tax revenue received in calendar 2018 represents collections of calendar year 2017 taxes. Real property taxes received in calendar year 2018 were levied after April 1, 2017, on the assessed value listed as of January 1, 2017, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 6 - PROPERTY TAXES- (Continued)

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

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, and public utility taxes which became 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 available as an advance at June 30, 2018 is intended to finance current year operations. The receivable is therefore offset by a credit to deferred inflows of resources for that portion not intended to finance current year operations. The amounts available as an advance at June 30, 2018 were \$770,366 for the General Fund, \$12,143 for the Classroom Facilities Maintenance Nonmajor Special Revenue Fund and \$60,701 for the Bond Retirement Nonmajor Debt Service Fund.

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

	2017 Second - Half Collections		2018 First - Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$204,412,610	92.04%	\$202,442,490	90.92%
Public Utility	17,678,950	7.96%	20,228,720	9.08%
Total Assessed Value	<u>\$222,091,560</u>	<u>100.00%</u>	<u>\$222,671,210</u>	<u>100.00%</u>
Total rate per \$1,000 of assessed valuation		\$31.60		\$31.60

NOTE 7 - SCHOOL INCOME TAXES

The District currently benefits from a 0.75% income tax, which is assessed on earned income only for all residents of the District. The District apportions all the proceeds to the General Fund. During fiscal year 2018, the District generated \$1,453,369 from the school income tax.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 8 - TAX ABATEMENTS ENTERED INTO BY OTHER GOVERNMENTS

Other governments entered into property tax abatement agreements with property owners under the Ohio Enterprise Zone Program with the taxing districts of the District. The Ohio Enterprise Zone Program is an economic development tool administered by municipal and county governments that provides real and personal property tax exemptions to businesses making investments in Ohio. Enterprise zones are designated areas of land in which businesses can receive tax incentives in the form of tax exemptions on eligible new investment. The Enterprise Zone Program can provide tax exemptions for a portion of the value of new real property investment when the investment is made in conjunction with a project that includes job creation. Within the taxing districts of the District, Ross County has entered into such an agreement. Under this agreement the District's property taxes were reduced by approximately \$127,318. The District is not receiving any amounts from this other government in association with the forgone property tax revenue.

NOTE 9 - 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 intergovernmental receivables follow:

	<u>Amounts</u>
<i>Nonmajor Special Revenue Funds:</i>	
Title VI-B	\$50,579
Title II-D	67,961
Title VI-R	5,584
Miscellaneous Federal Grants	<u>1,598</u>
<i>Total Intergovernmental Receivables</i>	<u><u>\$125,722</u></u>

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 10 - CAPITAL ASSETS

A summary of the changes in capital assets during fiscal year 2018 follows:

	<u>Balance at July 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2018</u>
<i>Governmental Activities:</i>				
<i>Nondepreciable Capital Assets:</i>				
Land	\$137,750	\$0	\$0	\$137,750
<i>Depreciable Capital Assets:</i>				
Land Improvements	411,016	7,102	0	418,118
Buildings and Improvements	17,599,426	0	0	17,599,426
Furniture, Fixtures, Equipment and Textbooks	2,951,618	57,624	0	3,009,242
Vehicles	1,419,877	126,044	(254,683)	1,291,238
Total Depreciable Capital Assets	<u>22,381,937</u>	<u>190,770</u>	<u>(254,683)</u>	<u>22,318,024</u>
Total Capital Assets	<u>22,519,687</u>	<u>190,770</u>	<u>(254,683)</u>	<u>22,455,774</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(284,779)	(18,046)	0	(302,825)
Buildings and Improvements	(6,525,749)	(344,611)	0	(6,870,360)
Furniture, Fixtures, Equipment and Textbooks	(2,296,490)	(102,400)	0	(2,398,890)
Vehicles	(1,211,990)	(32,971)	254,683	(990,278)
Total Accumulated Depreciation	<u>(10,319,008)</u>	<u>(498,028)</u>	<u>254,683</u>	<u>(10,562,353)</u>
Depreciable Capital Assets, Net	<u>12,062,929</u>	<u>(307,258)</u>	<u>0</u>	<u>11,755,671</u>
Governmental Activities Capital Assets, Net	<u>\$12,200,679</u>	<u>(\$307,258)</u>	<u>\$0</u>	<u>\$11,893,421</u>

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 10 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<i>Instruction:</i>	
Regular	\$186,854
Special	22,799
<i>Support Services:</i>	
Pupils	21,273
Instructional Staff	20,514
Administration	38,406
Fiscal	7,947
Operation and Maintenance of Plant	75,412
Pupil Transportation	80,736
Central	9,426
Operation of Non-Instructional Services	26,624
Extracurricular Activities	8,037
Total Depreciation Expense	<u>\$498,028</u>

NOTE 11 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2018, the District contracted with Ohio School Plan for property and fleet insurance and for boiler and machinery coverage. Insurance coverage provided includes the following:

Building and Contents (\$1,000 deductible)	\$43,187,613
Boiler and Machinery (\$1,000 deductible)	No Limit
Automobile Liability (\$1,000 deductible)	1,000,000
<i>General Liability:</i>	3,000,000
Per occurrence	
Total per year	1,000,000

For fiscal year 2018, the District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The District pays this annual premium to the OSP (See Note 19).

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 11 - RISK MANAGEMENT - (Continued)

The types and amounts of coverage provided by the Ohio School Plan are as follows:

General Liability:

Bodily Injury and Property Damage - Each Occurrence Limit and Sexual Abuse Injury - Each Sexual Abuse Offense Limit	\$3,000,000
Personal and Advertising Injury - Each Offense Limit	3,000,000
Fire Damage - Any One Event Limit	500,000
Medical Expense - Any One Person Limit	10,000
Medical Expense - Each Accident Limit	10,000
General Aggregate Limit	5,000,000
Products - Completed Operations Limit	3,000,000

Employee Benefits Liability Endorsement:

Employee Benefits Injury - Each Offense Limit	3,000,000
Employee Benefits Injury - Aggregate Limit	3,000,000

Employer's Liability and Stop Gap Endorsement:

Bodily Injury by Accident - Each Accident Limit	3,000,000
Bodily Injury by Disease - Endorsement Limit	3,000,000
Bodily Injury by Disease - Each Employee Limit	3,000,000

Educational Legal Liability Coverage (\$2,500 deductible):

Errors and Omissions Injury Limit	3,000,000
Errors and Omissions Injury Aggregate Limit	5,000,000
Employment Practices Injury Limit	3,000,000
Employment Practices Injury Aggregate Limit	5,000,000

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

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 11 - RISK MANAGEMENT - (Continued)

The District participates in the SchoolComp Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The third party administrator, CMI, reviews each participant's claims experience and determines the rating tier for that participant.

The firm Comp Management, Inc. provides administrative, cost control and actuarial services to the Plan. Each year the District pays an enrollment fee to the Plan to cover costs of administering the program.

The District provides medical, prescription and dental insurance for its employees. Premiums are paid directly to the South Central Ohio Insurance Consortium (SCOIC), a third party administrator, who services all claims submitted by employees.

The District was self funded with the South Central Ohio Insurance Consortium effective July 1, 2012.

The South Central Ohio Insurance Consortium was established to accumulate balances sufficient to self-insure basic medical and prescription drug coverage and permit excess umbrella coverage for claims over a predetermined level. The Board's share and the employees' share of premium contributions are determined by the negotiated agreement for certificated employees and by Board action for administrators and classified employees.

Premiums are paid to the South Central Ohio Insurance Consortium Fund from the Self Insurance Fund of the District. The District had \$491,254 cash balance with the fiscal agent at June 30, 2018. Claims payments are made on an as-incurred basis by the third party administrator, with the balance of contributions remaining with the Fiscal Agent of the Consortium.

The member districts are self insured for medical, dental and pharmacy benefits. The risk for medical, dental and pharmacy benefits remains with the member districts. The claims payable will be reported for medical, dental and pharmacy claims as of June 30, 2018, and cash with fiscal agent for the balance of funds held by the Consortium that covers medical, dental and pharmacy claims will be reported.

The claims liability of \$409,900 supported at June 30, 2018 is based on an estimate provided by the third party administrators and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

Fiscal Year	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2017	\$206,600	\$1,913,656	\$1,746,156	\$374,100
2018	374,100	2,159,767	2,123,967	409,900

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

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.

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 *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description –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.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 65 with 5 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 employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$244,157 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

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

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

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. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 65 with five years of qualifying service credit, or age 55 with 25 years of service, or 31 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2017, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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, member contributions are allocated among investment choices by the member, and employer contributions 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 65 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, plan members were required to contribute 13 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.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

The District's contractually required contribution to STRS was \$858,632 for fiscal year 2018. Of this amount \$146,584 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the 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>
Proportionate Share of the Net Pension Liability			
Current Measurement Date	0.05022490%	0.04995078%	
Prior Measurement Date	<u>0.04943790%</u>	<u>0.04904243%</u>	
Change in Proportionate Share	<u>0.00078700%</u>	<u>0.00090835%</u>	
Proportionate Share of the Net Pension Liability	\$3,000,827	\$11,865,915	\$14,866,742
Pension Expense	(\$147,617)	(\$4,576,571)	(\$4,724,188)

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	\$129,145	\$458,206	\$587,351
Changes of assumptions	155,175	2,595,206	2,750,381
Changes in proportion and differences between District contributions and proportion share of contributions	33,115	249,098	282,213
District contributions subsequent to the measurement date	<u>244,157</u>	<u>858,632</u>	<u>1,102,789</u>
Total Deferred Outflows of Resources	<u>\$561,592</u>	<u>\$4,161,142</u>	<u>\$4,722,734</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$0	\$95,634	\$95,634
Net difference between projected and actual investment earnings	14,246	391,588	405,834
Changes in proportion and differences between District contributions and proportion share of contributions	<u>65,698</u>	<u>107,706</u>	<u>173,404</u>
Total Deferred Inflows of Resources	<u>\$79,944</u>	<u>\$594,928</u>	<u>\$674,872</u>

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

\$1,102,789 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	\$79,944	\$545,198	\$625,142
2020	173,258	1,077,894	1,251,152
2021	57,126	823,094	880,220
2022	(72,837)	261,396	188,559
Total	<u>\$237,491</u>	<u>\$2,707,582</u>	<u>\$2,945,073</u>

Actuarial Assumptions - SERS

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

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

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

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

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

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015. As a result of the actuarial experience study, 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 1.75% 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 and (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.

The most recent experience study was completed 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 averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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

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.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 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 (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$4,164,368	\$3,000,827	\$2,026,124

Actuarial Assumptions - STRS

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

	July 1, 2017	July 1, 2016
Inflation	2.50%	2.75%
Projected salary increases	12.50% at age 20 to 2.50% at age 65	12.25% at age 20 to 2.75% at age 70
Investment Rate of Return	7.45%, net of investment expenses	7.75%, net of investment expenses
Payroll Increases	3%	3.50%
Cost-of-Living Adjustments (COLA)	0.00% effective July 1, 2017	2 % simple applied as follows: for members retiring before August 1, 2013, or later, 2 % COLA commences on 5th 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.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

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

* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.5 percent, and does not include investment expenses. Over a 30 year period, STRS Ohio's investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.75% as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75% 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% 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%, 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%) or one-percentage-point higher (8.45%) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
District's Proportionate Share of the Net Pension Liability	\$17,009,385	\$11,865,915	\$7,533,312

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.

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.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 13 - DEFINED BENEFIT OPEB PLANS – (Continued)

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 *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the District's surcharge obligation was \$25,146.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 13 - DEFINED BENEFIT OPEB PLANS – (Continued)

The surcharge, added 0.5 percent 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 \$9,043 for fiscal year 2018. Of this amount \$0 is reported as an intergovernmental 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.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

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	0.04957934%	0.04904243%	
Current Measurement Date	<u>0.05050760%</u>	<u>0.04995078%</u>	
Change in Proportionate Share	<u>0.00092826%</u>	<u>0.00090835%</u>	
Proportionate Share of the Net			
OPEB Liability	\$1,355,491	\$1,948,895	\$3,304,386
OPEB Expense	\$85,943	(\$584,982)	(\$499,039)

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 13 - DEFINED BENEFIT OPEB PLANS – (Continued)

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	\$0	\$112,503	\$112,503
Changes in Proportion and Differences between School District			
Contributions and Proportionate Share of Contributions	13,965	38,863	52,828
District contributions subsequent to the measurement date	34,189	0	34,189
Total Deferred Outflows of Resources	\$48,154	\$151,366	\$199,520
Deferred Inflows of Resources			
Net difference between projected and Actual Investment	\$3,579	\$83,300	\$86,879
Changes of assumptions	128,629	156,990	285,619
Total Deferred Inflows of Resources	\$132,208	\$240,290	\$372,498

\$34,189 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	(\$42,440)	(\$18,524)	(\$60,964)
2020	(42,440)	(\$18,524)	(60,964)
2021	(32,470)	(\$18,524)	(50,994)
2022	(893)	(\$18,524)	(19,417)
2023	0	(7,415)	(7,415)
Thereafter	0	(7,412)	(7,412)
Total	(\$118,243)	(\$88,923)	(\$207,166)

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.

ZANE TRACE LOCAL SCHOOL DISTRICT

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.

ZANE TRACE LOCAL SCHOOL DISTRICT

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:

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

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.

	<u>1% Decrease (2.63%)</u>	<u>Current Discount Rate (3.63%)</u>	<u>1% Increase (4.63%)</u>
District's proportionate share of the net OPEB liability	\$1,636,928	\$1,355,491	\$1,132,521

ZANE TRACE LOCAL SCHOOL DISTRICT

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	\$1,099,880	\$1,355,491	\$1,693,798

Actuarial Assumptions – STRS

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

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6 to 11 percent initial, 4.5 percent ultimate

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

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

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

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

ZANE TRACE LOCAL SCHOOL DISTRICT

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

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

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

ZANE TRACE LOCAL SCHOOL DISTRICT

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.

	<u>1% Decrease (3.13%)</u>	<u>Current Discount Rate (4.13%)</u>	<u>1% Increase (5.13%)</u>
District's proportionate share of the net OPEB liability	\$2,616,360	\$1,948,895	\$1,421,379

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
District's proportionate share of the net OPEB liability	\$1,354,009	\$1,948,895	\$2,731,835

NOTE 14 – EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Eligible classified employees earn ten to twenty-five days of vacation per fiscal year, depending upon the length of service. Unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. There is no limit of sick leave accumulation for all personnel. Upon retirement, payment is made for one-third of accrued, but unused sick leave credit to a maximum of 60 days for all employees. Teachers earn additional \$50 for each accumulated sick day in excess of 180 days as additional severance pay.

B. Special Retirement Benefit

The Board of Education approved a special retirement benefit program. All individuals who give written notice of their intent to retire on or before March 1 of the year they intend to retire shall receive an additional \$1,500 classified staff and \$1,750 certified staff in their final paycheck.

C. Life Insurance

The District provides life insurance to most employees through Dearborne National.

D. Deferred Compensation

The District employees may participate in the Ohio Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death, or an unforeseeable emergency.

ZANE TRACE LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2018

NOTE 15 - LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during fiscal year 2018 for its governmental activities were as follows:

	Issue Date	Interest Rate	*Principal Outstanding at July 1, 2017	Additions	Deductions	Principal Outstanding at June 30, 2018	Amount Due In One Year
<i>Governmental Activities:</i>							
2009 Refunding Bonds							
Term Bonds	2009	2.50%	\$685,000	\$0	\$335,000	\$350,000	\$350,000
Capital Appreciation Bonds		4.50%	159,999	0	0	159,999	0
Accretion on Capital Appreciation Bonds		4.50%	133,740	11,368	0	145,108	0
Premium on Bonds			20,843	0	8,337	12,506	8,337
Certificate of Participation			1,655,000	0	204,000	1,451,000	214,000
Total General Obligation Debt			2,654,582	11,368	547,337	2,118,613	572,337
Net Pension Liability							
STRS			16,415,980	0	4,550,065	11,865,915	0
SERS			3,618,398	0	617,571	3,000,827	0
Total Net Pension Liability			20,034,378	0	5,167,636	14,866,742	0
Net OPEB Liability							
STRS			2,671,381	0	722,486	1,948,895	0
SERS			1,439,653	0	84,162	1,355,491	0
Total Net OPEB Liability			4,111,034	0	806,648	3,304,386	0
Capital Leases			69,666	120,449	79,989	110,126	83,011
Compensated Absences			697,900	307,820	162,977	842,743	26,137
Total Governmental Activities Long-Term Obligations			\$27,567,560	\$439,637	\$6,764,587	\$21,242,610	\$681,485

*Restated

Refunding General Obligation Bonds - During fiscal year 2009, the District issued \$2,994,999 of general obligation bonds for the advance refunding of \$2,995,000 of the 1997 series bonds. The \$87,543 premium on the issuance of the refunding bonds is added against this debt and is being amortized over the life of this debt, which has the same remaining life of the refunded debt of 11 years with a final maturity of December 1, 2019. The refunding was undertaken to reduce total future debt service payments over 11 years by \$349,880 and to obtain an economic gain of \$294,607. The refunding bonds are retired through the Bond Retirement Fund using tax revenues.

The term bonds maturing on December 1, 2019 (fiscal year 2020) are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed plus accrued interest to the date of redemption, on December 1, in the fiscal years and respective principal amounts as follows:

Calendar Year	Amount
2019	\$350,000

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 15 - LONG-TERM OBLIGATIONS - (Continued)

Term bonds maturing on December 1, 2019 are subject to optional redemption, in whole or in part on any date at the option of the issuer on or after December 1, 2009, as follows:

Redemption Dates (Dates Inclusive)	Redemption Prices
December 1, 2009 and thereafter	100%

The capital appreciation bonds are not subject to a mandatory sinking fund or optional redemption prior to state maturity. The capital appreciation bonds will mature in fiscal year 2020. The maturity amount of the bonds is \$355,000. For fiscal year 2018, \$23,176 was accreted on the capital appreciation bonds.

Principal and interest requirements to retire the School Improvement Bonds outstanding at June 30, 2018, are as follows:

Year Ending June 30	2009 Refunding Bonds					
	Term Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$350,000	\$39,240	\$0	\$0	\$350,000	\$39,240
2020	0	0	159,999	195,001	159,999	195,001
Total	<u>\$350,000</u>	<u>\$39,240</u>	<u>\$159,999</u>	<u>\$195,001</u>	<u>\$509,999</u>	<u>\$234,241</u>

The following table represents the payments required on the Certificate of Participation for the amount outstanding at June 30, 2018:

Fiscal Year Ending June 30	Principal	Interest	Total
2019	\$214,000	\$73,581	\$287,581
2020	224,000	62,790	286,790
2021	235,000	51,492	286,492
2022	247,000	39,642	286,642
2023	259,000	27,186	286,186
2024	272,000	14,124	286,124
Total	<u>\$1,451,000</u>	<u>\$268,815</u>	<u>\$1,719,815</u>

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 15 - LONG-TERM OBLIGATIONS - (Continued)

The District pays obligations related to employee compensation from the fund benefitting from their service. Capital leases are paid from the General Fund. Compensated absences will be paid from the General Fund and the Food Service, Title VI-B, Chapter I, and Safe and Drug Free School Nonmajor Special Revenue Funds.

The District's overall legal debt margin was \$18,079,410 with an unvoted debt margin of \$222,671 at June 30, 2018.

The certificate of participation obligation relates to the construction of additions and improvements to the high school and middle school and the athletic facility. The District is leasing the project from the Columbus Airport Authority. The Columbus Airport Authority has assigned US Bank as trustee. US Bank deposited \$3,575,000 in the District's name with the escrow agent for the construction projects, in fiscal year 2005. During 2006, the District requested all of the funds previously held by the escrow agent. The District makes semi-annual payments to US Bank. Interest rates are based on a calculation of the TBMA Index. The certificate is renewable annually and expires in 2025. The intention of the District is to renew the certificate annually. The payments for this debt will be made from the General Fund.

NOTE 16 - CAPITAL LEASE - LESSEE DISCLOSURE

During fiscal year 2018, the District entered into a new capital lease for two buses in the amount of \$120,449. The District has reported \$104,690 as capital assets in the statement of net position for leased equipment.

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

<u>Fiscal Year Ending June 30,</u>	<u>Capital Lease Payments</u>
2019	\$87,090
2020	24,068
2021	<u>4,011</u>
Total	115,169
Less: Amount Representing Interest	<u>5,042</u>
Present Value of Net Minimum Lease Payments	<u><u>\$110,127</u></u>

NOTE 17 - FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental fund and all other governmental funds are presented below:

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 17 – FUND BALANCES - (Continued)

As of June 30, 2018, fund balances are composed of the following:

	General	Nonmajor Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
<i>Nonspendable:</i>			
Prepays	\$9,567	\$0	\$9,567
Inventory	12,141	0	12,141
<i>Total Nonspendable</i>	<u>21,708</u>	<u>0</u>	<u>21,708</u>
<i>Restricted:</i>			
Set-Asides	599,880	0	599,880
<i>Special Revenues:</i>			
Athletics	0	77,152	77,152
Facilities Maintenance	0	273,336	273,336
Food Service	0	129,723	129,723
Local Grants	0	16,392	16,392
Federal Grants	0	74,284	74,284
Debt Service	0	411,540	411,540
<i>Total Restricted</i>	<u>599,880</u>	<u>982,427</u>	<u>1,582,307</u>
<i>Assigned:</i>			
<i>Encumbrances for:</i>			
Regular Instruction	33,144	0	33,144
Special Instruction	56,345	0	56,345
Other Instruction	33,980	0	33,980
Pupils	350	0	350
Board of Education	42,018	0	42,018
Administration	2,020	0	2,020
Fiscal	4,586	0	4,586
Operation & Maintenance of Plant	23,200	0	23,200
Pupil Transportation	8,209	0	8,209
Central	418	0	418
Uniform School Supplies	11,807	0	11,807
Rotary	7,154	0	7,154
Public School Support	33,598	0	33,598
<i>Total Assigned</i>	<u>256,829</u>	<u>0</u>	<u>256,829</u>
<i>Unassigned</i>	<u>2,992,922</u>	<u>0</u>	<u>2,992,922</u>
Total Fund Balances	<u><u>\$3,871,339</u></u>	<u><u>\$982,427</u></u>	<u><u>\$4,853,766</u></u>

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

A. Metropolitan Educational Technology Association (META)

The District is a participant in the Metropolitan Educational Technology Association (META), which is a computer consortium. META is an educational solutions partner providing services across Ohio. META provides cost-effective fiscal, network, technology, and student services, a purchasing cooperative, and other individual services based on each client's needs.

The governing board of META consists of a president, vice president and six board members who represent the members of META. The Board works with META's Chief Executive Officer, and Chief Financial Officer to manage operations and ensure the continued progress of the organization's mission, vision, and values. The Board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each School District's degree of control is limited to its representation on the Board. The District paid META \$33,887 for services provided during the fiscal year. Financial information can be obtained from the SCOCA Regional Council of Governments through META Solutions, David Varda, CFO, 100 Executive Drive, Marion, Ohio 43302.

B. Pickaway-Ross Career and Technology Center

The Pickaway-Ross Career and Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of eleven representatives from the various City and County Boards within Pickaway and Ross Counties, which possesses its own budgeting and taxing authority. The Center provides vocational instruction to students in both Pickaway and Ross Counties. To obtain financial information write to the Pickaway-Ross Career and Technology Center, Todd Stahl, who serves as Treasurer, at 895 Crouse Chapel Road, Chillicothe, Ohio 45601.

C. Great Seal Education Network of Tomorrow

The Great Seal Education Network of Tomorrow is a regional council of governments (the "Council") consisting of twelve city, local and joint vocational school districts, two educational service centers and the Ohio University-Chillicothe Campus for the purpose of promoting the use of advanced telecommunications and technology to provide enhanced educational opportunities to the communities of Ross and Pickaway Counties. The Council is operated under the direction of a Board of Directors consisting of one representative (the superintendent or another person appointed by the board of education) of each of the members. The Council possesses its own budgeting and taxing authority. To obtain financial information, write to the Ohio University-Chillicothe Campus, who acts as fiscal agent, at 571 West Fifth Street, Chillicothe, Ohio 45601.

D. South Central Ohio Insurance Consortium (SCOIC)

The SCOIC is a regional council of governments organized under Ohio Revised Code Section 167. The SCOIC's primary purpose and objective is establishing and carrying out a cooperative health program for its members consisting of 16 entities within Fairfield, Fayette, Franklin, Hocking, Perry and Ross Counties. The governing board consists of the superintendent or other designees appointed by each of the members of the SCOIC. The participating members pay an administrative fee to the fiscal agent to cover the costs of administering the Consortium. The District does not have an ongoing interest in or ongoing financial responsibility for the SCOIC other than claims paid on behalf of the District for their employees. The District joined the SCOIC on January 1, 2002. To obtain financial information, write to the Bloom Carroll Local School District, Travis Bigam, who serves as Treasurer, at 5240 Plumb Road NW, Carroll, Ohio 43112.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS - (Continued)

E. Pilasco-Ross Special Education Regional Resource Center

The Pilasco-Ross Special Education Regional Resource Center (SERRC) is a special education service center which represents Lawrence, Pike, Ross and Scioto Counties. The SERRC selects its own governing board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

The SERRC is governed by a Board composed of superintendents of participating schools, parents of children with disabilities, representatives of county boards of MR/DD, Joint Vocational Schools, Pickaway-Ross Career and Technology Center, Shawnee State University, and Ross-Pike, Lawrence and South Central Ohio Educational Service Centers, whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the board. The fiscal agent for the SERRC is Dawson-Bryant Local School District. Financial information can be obtained by contacting Donald Washburn, Director of Pilasco-Ross, at the South Central Ohio Educational Service Center, 411 Court Street, Portsmouth, Ohio 45622.

F. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization of over one hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The Board members are composed of one superintendent from each county elected by the school districts within the county. The Council provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel.

NOTE 19 - INSURANCE PURCHASING POOLS

A. SchoolComp Worker's Compensation Group Rating Plan

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

B. Ohio School Plan

For Members with Ohio Plan policies renewing after November 1, 2005.

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 19 - INSURANCE PURCHASING POOLS - (Continued)

Risk Pool Membership

The District belongs to the Ohio School Plan (the “Plan”), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 400 Ohio schools (“Members”).

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, general liability, educator’s legal liability, automobile and violence coverage’s, modified for each member’s needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member’s specific deductible.

The Plan issues its own policies and reinsures the Plan with reinsurance carriers. Only if the Plan’s paid liability loss ratio exceeds 65% and is less than 80% does the Plan contribute to paid claims. (See the Plan’s audited financial statements on the website for more details.) The individual members are responsible for their self-retention (deductible) amounts, which vary from member to member.

The Plan’s audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2017 and 2016 (the latest information available):

	<u>2017</u>	<u>2016</u>
Assets	\$11,441,994	\$10,507,059
Liabilities	<u>(4,503,476)</u>	<u>(3,853,671)</u>
Members Equity	<u>\$6,938,518</u>	<u>\$6,653,388</u>

You can read the complete audited financial statements for the Ohio School Plan at the Plan’s website, www.ohioschoolplan.org.

NOTE 20 - STATUTORY SET-ASIDES

The District is required by State statute to annually set aside, in the General Fund, an amount based on a 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 fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in the future years.

The following changes occurred in the District’s set-aside reserve accounts during fiscal year 2018:

	<u>Capital Improvements</u>
Set-aside Reserve Balance as of June 30, 2017	\$515,604
Current Year Set-aside Requirement	250,952
Current Year Offset	(80,670)
Qualifying Disbursements	<u>(86,006)</u>
Set-aside Reserve Balance as of June 30, 2018	<u>\$599,880</u>
Set-aside Reserve Balance Carried Forward to FY 19	<u>\$599,880</u>

ZANE TRACE LOCAL SCHOOL DISTRICT

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 21 - ENCUMBRANCE COMMITMENTS

At June 30, 2018, the District had encumbrance commitments in the Governmental Funds as follows:

<u>Major Fund</u>	
General	\$325,504
 <u>Nonmajor Funds</u>	
Food Service	3,402
Local Grants	0
Classroom Facilities Maintenance	69
Athletics and Bands	10,310
Title VIB	142
Title IV-A Grant	8,402
Bond Retirement	<u>367</u>
Total Nonmajor Funds	<u>22,692</u>
 Total Encumbrances	 <u><u>\$348,196</u></u>

NOTE 22 - OHIO DEPARTMENT OF EDUCATION FOUNDATION FUNDING

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2017-2018 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2018 Foundation funding for the School District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

NOTE 23 - CONTINGENCIES

A. Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the District at June 30, 2018, if applicable, cannot be determined at this time.

B. Litigation

The District is involved in no pending litigation that would have a material effect on the financial condition of the District.

ZANE TRACE LOCAL SCHOOL DISTRICT
Schedule of the District's Proportionate Share of Net Pension Liability
Last Five Measurement Periods (1)

	2017	2016	2015	2014	2013
<u>School Employees Retirement System of Ohio</u>					
District's Proportion of the Net Pension Liability	0.05022490%	0.04957934%	0.05129650%	0.0538100%	0.0538100%
District's Proportionate Share of the Net Pension Liability	\$3,000,827	\$3,618,398	\$2,927,028	\$2,701,582	\$3,174,397
District's Covered Payroll	\$1,661,657	\$1,727,829	\$2,111,578	\$1,897,576	\$1,385,393
District's Proportionate Share of the Net Pension Liability as a Percentage of it's Covered Payroll	180.59%	209.42%	138.62%	142.37%	229.13%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%
<u>State Teachers Retirement System of Ohio</u>					
District's Proportion of the Net Pension Liability	0.04995078%	0.04904243%	0.04877580%	0.04971763%	0.04971763%
District's Proportionate Share of the Net Pension Liability	\$11,865,915	\$16,415,980	\$13,480,204	\$12,093,048	\$14,405,160
District's Covered Payroll	\$5,519,943	\$5,009,200	\$5,280,307	\$5,662,277	\$5,654,500
District's Proportionate Share of the Net Pension Liability as a Percentage of it's Covered Payroll	214.96%	327.72%	255.29%	213.57%	254.76%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.09%	74.71%	69.30%

(1) Information prior to 2013 is not available.

Amounts presented as of the District's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

ZANE TRACE LOCAL SCHOOL DISTRICT
Schedule of the District's Proportionate Share of Net OPEB Liability
Last Two Fiscal Years (1)

	<u>2018</u>	<u>2017</u>
<u>School Employees Retirement System of Ohio</u>		
District's Proportion of the Net OPEB Liability	0.05050760%	0.04957934%
District's Proportionate Share of the Net OPEB Liability	\$1,355,491	\$1,413,195
District's Covered-Employee Payroll	\$1,808,571	\$1,661,657
District's Proportionate Share of the Net OPEB Liability as a Percentage of it's Covered-Employee Payroll	74.95%	85.05%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%
<u>State Teachers Retirement System of Ohio</u>		
District's Proportion of the Net OPEB Liability	0.04995078%	0.04904234%
District's Proportionate Share of the Net OPEB Liability	\$1,948,895	\$2,622,802
District's Covered-Employee Payroll	\$6,133,086	\$5,519,943
District's Proportionate Share of the Net OPEB Liability as a Percentage of it's Covered-Employee Payroll	31.78%	47.52%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2013 is not available.

Amounts presented as of the District's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

ZANE TRACE LOCAL SCHOOL DISTRICT
Schedule of the District's Contributions
School Employees Retirement Systems of Ohio
Last Six Fiscal Years (1)

	2018	2017	2016	2015	2014	2013
<u>Pension</u>						
Contractually Required Contributions	\$244,157	\$232,632	\$241,896	\$278,306	\$263,004	\$191,738
Contributions in Relation to the Contractually Required Contributions	(244,157)	(232,632)	(241,896)	(278,306)	(263,004)	(191,738)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0	\$0	\$0
District Covered-Employee Payroll	\$1,808,571	\$1,661,657	\$1,727,829	\$2,111,578	\$1,897,576	\$1,385,393
Contributions as a Percentage of Covered-Employee Payroll	13.50%	14.00%	14.00%	13.18%	13.86%	13.84%
<u>OPEB</u>						
Contractually Required Contributions (2)	\$9,043	\$0	\$0	\$17,315	\$2,657	\$2,217
Contributions in Relation to the Contractually Required Contributions	(9,043)	0	0	(17,315)	(2,657)	(2,217)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0	\$0	\$0
District Covered-Employee Payroll	\$1,808,571	\$1,661,657	\$1,727,829	\$2,111,578	\$1,897,576	\$1,385,393
Contributions as a Percentage of Covered-Employee Payroll	0.50%	0.00%	0.00%	0.82%	0.14%	0.16%

(1) Information prior to 2013 is not available.
(2) Excludes surcharge amount.

Amounts presented as of the District's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

ZANE TRACE LOCAL SCHOOL DISTRICT

Schedule of the District's Contributions

State Teachers Retirement System of Ohio

Last Ten Fiscal Years (1)

	2018	2017	2016	2015	2014	2013
<u>Pension</u>						
Contractually Required Contributions	\$858,632	\$772,792	\$701,288	\$739,243	\$736,096	\$735,085
Contributions in Relation to the Contractually Required Contributions	(858,632)	(772,792)	(701,288)	(739,243)	(736,096)	(735,085)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0	\$0	\$0
District Covered-Employee Payroll	\$6,133,086	\$5,519,943	\$5,009,200	\$5,280,307	\$5,662,277	\$5,654,500
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	14.00%	13.00%	13.00%
<u>OPEB</u>						
Contractually Required Contributions	\$0	\$0	\$0	\$0	\$56,662	\$56,545
Contributions in Relation to the Contractually Required Contributions	0	0	0	0	(56,662)	(56,545)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0	\$0	\$0
District Covered-Employee Payroll	\$6,133,086	\$5,519,943	\$5,009,200	\$5,280,307	\$5,662,277	\$5,654,500
Contributions as a Percentage of Covered-Employee Payroll	0.00%	0.00%	0.00%	0.00%	1.00%	1.00%

(1) Information prior to 2013 is not available.

Amounts presented as of the District's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

ZANE TRACE LOCAL SCHOOL DISTRICT

*Notes to the Supplementary Information
For the Fiscal Year Ended June 30, 2018*

NOTE 1 – SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

Pension

Assumption Changes Since Prior Measurement Date – For fiscal year 2018, an assumption of 2.5 percent was used for COLA or Ad Hoc Cola. Prior to 2018, an assumption of 3 percent was used.

Beginning with fiscal year 2017, amounts reported incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2016 and prior are presented below:

	<u>Fiscal Year 2017</u>	<u>Fiscal Year 2016 and Prior</u>
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation

Beginning with fiscal year 2017, mortality assumptions use mortality rates that are 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. Amounts reported for fiscal year 2016 and prior, use mortality assumptions that are based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

Other Postemployment Benefits

Assumption Changes Since the Prior Measurement Date – Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:	
Fiscal Year 2018	3.56 percent
Fiscal Year 2017	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, Including price inflation	
Fiscal Year 2018	3.63 percent
Fiscal Year 2017	2.98 percent

NOTE 2 - STATE TEACHERS RETIREMENT SYSTEM OF OHIO

Pension

Assumption Changes Since Prior Measurement Date – Amounts reported for fiscal year 2018 incorporate changes in assumptions and changes in benefit terms used by STRS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2017 and prior are presented below:

ZANE TRACE LOCAL SCHOOL DISTRICT

*Notes to the Supplementary Information
For the Fiscal Year Ended June 30, 2018*

NOTE 2 - STATE TEACHERS RETIREMENT SYSTEM OF OHIO - Continued

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 expense, including inflation	7.75 percent net of investment expense, 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 fiscal year 2018 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% 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 fiscal year 2017 and prior 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.

Other Postemployment Benefits

Assumption Changes Since the Prior Measurement Date – For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, 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.

**Zane Trace Local School District
Ross County**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Receipts	Total Federal Expenditures
<u>U.S. Department of Agriculture</u>				
<i>(Passed through Ohio Department of Education)</i>				
Nutrition Cluster:				
<i>Non-Cash Assistance (Food Distribution):</i>				
National School Lunch Program	10.555	3L60	30,167	30,167
<i>Cash Assistance:</i>				
School Breakfast Program	10.553	3L70	53,292	53,292
National School Lunch Program	10.555	3L60	184,107	184,107
Total Nutrition Cluster			267,566	267,566
Total of U.S. Department of Agriculture			267,566	267,566
U.S. Department of Education:				
<i>(Passed through Ohio Department of Education)</i>				
Title I Grants to Local Educational Agencies - 2017	84.010	3M00	17,050	39,758
Title I Grants to Local Educational Agencies - 2018	84.010		156,019	154,482
			173,069	194,240
Special Education Cluster:				
Special Education - Grants to States - 2017	84.027	3M20	7,761	41,920
Special Education - Grants to States - 2018	84.027	3M20	249,742	241,357
Total Special Education Cluster			257,503	283,277
Supporting Effective Instruction State Grants - 2017	84.367	3Y60	1,671	5,390
Supporting Effective Instruction State Grants - 2018	84.367	3Y60	37,991	36,042
			39,662	41,432
Student Support Academic Enrichment	84.424	3H10	8,402	-
Total U.S. Department of Education			478,636	518,949
Total Federal Awards			746,202	786,515

**ZANE TRACE LOCAL SCHOOL
ROSS COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Zane Trace Local School District (the Government's) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Government, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Government

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The School District has elected **not** to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D - CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE E – FOOD DONATION PROGRAM

Nonmonetary assistance is reported in the schedule at the entitlement value of the commodities received and disbursed.

OHIO AUDITOR OF STATE KEITH FABER



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

Zane Trace Local School District
Ross County
946 State Route 180
Chillicothe, Ohio 45601

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, the major fund, and the aggregate remaining fund information of the Zane Trace Local School District, Ross County, (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 5, 2019 wherein we noted the District adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2018-001 to be a material weakness.

Compliance and Other Matters

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

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

February 5, 2019

OHIO AUDITOR OF STATE KEITH FABER



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Zane Trace Local School District
Ross County
964 State Route 180
Chillicothe, Ohio 45601

To the Board of Education:

Report on Compliance for each Major Federal Program

We have audited Zane Trace Local School District's (the District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of Zane Trace Local School District's major federal programs for the year ended June 30, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal programs.

Management's Responsibility

The District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for each of the District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on each of the District's major programs. However, our audit does not provide a legal determination of the District's compliance.

Opinion on each Major Federal Program

In our opinion, Zane Trace Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2018.

Corporate Centre of Blue Ash, 11117 Kenwood Road, Blue Ash, Ohio 45242
Phone: 513-361-8550 or 800-368-7419
www.ohioauditor.gov

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

February 5, 2019

**ZANE TRACE LOCAL SCHOOL DISTRICT
ROSS COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2018**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material weaknesses in internal control reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	No
(d)(1)(vii)	Major Programs (list):	Title I: CFDA # 84.010
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR § 200.520?	Yes

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

FINDING NUMBER 2018-001

Material Weakness

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

Due to deficiencies in the District's financial statement monitoring and review process, the following conditions were noted related to the District's accounting system:

**FINDING NUMBER 2018-001
(Continued)**

- Homestead and Rollback Receivables were reported as Property Taxes Receivables instead of Intergovernmental Receivables in the General Fund in the amount of \$520,479.
- Revenues in the amount of \$641,891 were reported as General Revenues instead of Program Revenues.
- Restated Net OPEB Liability was overstated by \$75,037 the SERS portion by \$26,458 and the STRS by \$48,579.
- Deferred Outflow of Resources - Change in Proportion of Net OPEB Liability was understated by \$52,828; the SERS by \$13,965 and the STRS by \$38,863; and Pension Expense was understated by \$22,209; the SERS portion by \$12,493 and the STRS portion by \$9,716.
- Unrecorded Capital Asset for 27,399 in the Governmental Activities

The District has posted these adjustments to the financial statements and accounting records where appropriate.

The following conditions were also noted in the following opinion units related to the District's accounting and financial reporting that were not adjusted in the financial statements and accounting records:

Governmental Activities

- The District made errors in financial reporting in the Statement of Net Position balances and Statement of Activities transaction line item accounts in amounts ranging from \$49,523 to \$123,690.

General Fund

- The District made errors in financial reporting in the Statement of Revenues, Expenditures and Changes in Fund Balance in the amount of \$123,690.

Remaining Fund Information

- The District made errors in financial reporting in the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance in amounts ranging from \$7,789 to \$41,734.

Inaccurate recording of transactions reduces management's ability to monitor District resources and increases the risk that errors, theft or fraud could occur and not be detected in a timely manner.

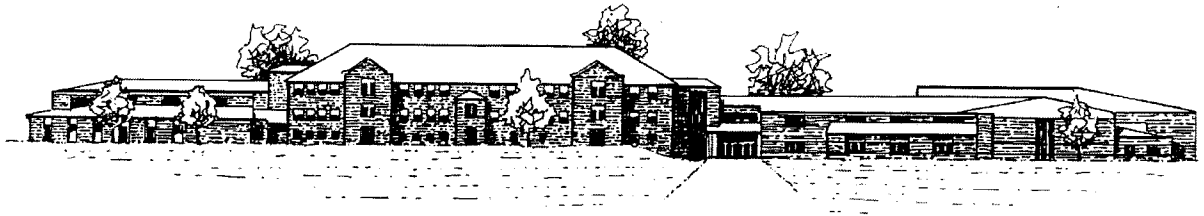
The District should accurately report financial transactions that reflect amounts recorded in their accounting records.

Officials' Response:

We did not receive a response from Officials to this finding.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



ZANE TRACE LOCAL SCHOOL DISTRICT

946 State Route 180 • Chillicothe, Ohio 45601 • 740-775-1355

CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
June 30, 2018

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	Our district is working with J.L.Uhrig & Associates to review what has caused these errors and finding a more efficient communication practice to meet the reporting standards.	June 30, 2019	Tambrea Irwin

OHIO AUDITOR OF STATE
KEITH FABER



ZANE TRACE LOCAL SCHOOL DISTRICT

ROSS 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**