



Dave Yost • Auditor of State

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY
JUNE 30, 2016**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Eastern Local School District
Meigs County
50008 State Route 681
Reedsville, Ohio 45772

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Eastern Local School District, Meigs County, Ohio (the District), as of and for the year ended June 30, 2016, 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 opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Eastern Local School District, Meigs County, Ohio, as of June 30, 2016, 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 a Matter

As discussed in Note 22 to the financial statements, the District restated the July 1, 2015 Internal Service Fund balance to include health self-insurance activity within this fund type. Our opinion is not modified with respect to 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 Liabilities and Pension 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 (the Schedule) 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 Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the Schedule 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 Schedule 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 March 7, 2017, 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State
Columbus, Ohio

March 7, 2017

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EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2016
(Unaudited)

The discussion and analysis of the Eastern Local School District's (District's) financial performance provides an overview and analysis of the District's financial activities for the fiscal year ended June 30, 2016. 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 assets and deferred outflows of resources of the District were less than its liabilities and deferred inflows of resources at June 30, 2016 by \$186,823. Of this amount, \$7,879,532 represents the amount invested in capital assets, net of related debt, and net position amounts restricted for specific purposes. The remaining (\$8,066,355) represents unrestricted net position.

In total, net position of governmental activities increased by \$934,644, which represents a 83 percent increase from 2015.

General revenues accounted for \$8,266,941 or 81.67 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,855,230 or 18.33 percent of total revenues of \$10,122,171.

The District had \$9,187,527 in expenses related to governmental activities; only \$1,855,230 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues (primarily taxes and grants and entitlements) of \$8,266,941 were used to provide for the remainder of these programs.

The District recognizes two major governmental funds: the General and the Bond Retirement Funds. In terms of dollars received and spent, the General Fund is significantly larger than all the other governmental funds of the District combined. The General Fund had \$9,017,530 in revenues and \$8,451,045 in expenditures in fiscal year 2016.

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 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.

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2016
(Unaudited)
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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 and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into accounts 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 and liabilities, with the difference between the two 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 government'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 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 13. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund and the Bond Retirement Fund.

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.

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2016
(Unaudited)
(Continued)

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 government'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's only proprietary fund 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.

Fiduciary Fund

The District's only fiduciary fund is an agency fund. 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.

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2016
(Unaudited)
(Continued)

Government-Wide Financial Analysis

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2016 compared to 2015.

Table 1
Net Position
Governmental Activities

	2016	2015 Restated
Assets		
Current and Other Assets	\$5,950,912	\$ 5,170,901
Capital Assets, Net	6,786,346	6,854,502
Total Assets	12,737,258	12,025,403
 Deferred Outflows of Resources		
Deferred Charge on Refunding	24,490	28,853
Pension	1,069,781	685,327
Total Deferred Outflows of Resources	1,094,271	714,180
 Liabilities		
Current and Other Liabilities	1,185,977	1,259,957
Long-Term Liabilities :		
Due Within One Year	133,878	152,677
Due Within More Than One Year:		
Net Pension Liability	10,760,484	9,461,396
Other Amounts	600,739	715,626
Total Liabilities	12,681,078	11,589,656
 Deferred Inflows of Resources		
Property Taxes	638,429	562,981
Pension	698,845	1,708,413
Total Deferred Inflows of Resources	1,337,274	2,271,394
 Net Position		
Net Investment in Capital Assets	6,211,145	6,435,603
Restricted	1,668,387	1,388,044
Unrestricted	(8,066,355)	(8,945,114)
Total Net Position	(\$186,823)	(\$1,121,467)

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2016
(Unaudited)
(Continued)

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 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 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 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.

Under the new standards required by GASB 68, the net pension liability equals 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 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. GASB noted that the unfunded portion of this pension 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 this liability. 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 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 pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *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 pension system is responsible for the administration of the plan.

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. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, 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 pension 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 is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2016
(Unaudited)
(Continued)

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

Current and other assets increased \$780,011 from fiscal year 2015 due to an increase in cash and cash equivalents held by the District. Capital assets decreased by \$68,156 or 0.99 percent due to current year depreciation expense.

Current (other) liabilities decreased by \$73,980 or 5.87 percent.

Long-term liabilities increased by \$1,165,402 due to the increase in net pension liability.

The District's largest portion of net position is related to amounts invested in capital assets \$6,211,145, net of related debt. 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 next largest portion of net position of \$1,668,387 is restricted net position. The restricted net position is subjected to external restrictions on how they may be used.

The District's unrestricted balance is (\$8,066,355). This net position represents resources that may be used to meet the District's ongoing obligations to its students and creditors.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2016 and 2015.

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2016
(Unaudited)
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Table 2
Change in Net position
Governmental Activities

	2016	2015 Restated
Revenues:		
Program Revenues:		
Charges for Services and Sales	\$971,917	\$892,217
Operating Grants and Contributions	883,313	1,065,555
General Revenues:		
Property Taxes	1,545,900	1,767,086
Unrestricted Grants and Entitlements	6,601,393	5,458,954
Gifts and Donations	27,730	30,617
Investment Earnings	11,058	5,955
Miscellaneous	80,860	93,898
Total Revenues	10,122,171	9,314,282
Expenses:		
Program Expenses		
Instruction:		
Regular	4,450,196	4,063,043
Special	961,715	904,264
Student Intervention Services	11,315	198
Other	302	47
Support Services:		
Pupils	665,953	687,099
Instructional Staff	103,830	117,788
Board of Education	32,606	24,431
Administration	539,425	565,510
Fiscal	276,420	271,807
Operation and Maintenance of Plant	935,087	891,307
Pupil Transportation	452,423	476,274
Central	81,535	78,883
Operational of Non-Instructional Services	386,383	369,219
Extracurricular Activities	262,185	258,669
Interest and Fiscal Charges	28,152	31,602
Total Expenses	9,187,527	8,740,141
Change in Net position	934,644	574,141
Net position – Beginning of Year	(1,121,467)	(1,695,608)
Net position – End of Year	(\$186,823)	(\$1,121,467)

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2016
(Unaudited)
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The most significant program expenses for the District are Regular Instruction, Special Instruction, Operation and Maintenance of Plant and Pupils. These programs account for 76.33 percent of the total governmental activities. Regular Instruction, which accounts for 48.44 percent of the total, represents costs associated with providing general educational services. Special Instruction, 10.47 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 10.17 percent of the total, represent costs associated with operating and maintaining the District's facilities. Pupils, which represents 7.25 percent of the total, represents costs associated with providing services to assess and improve the well-being of students or to supplement the teaching process.

The majority of the funding for the most significant programs indicated above is from operating grants and contributions and grants and entitlements not restricted for specific programs. Operating grants and contributions and grants and entitlements not restricted for specific programs account for 73.94 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 made up 15.27 percent and intergovernmental revenue made up 73.94 percent of the total revenue for the governmental activities in fiscal year 2016.

The District voters approved a bond retirement tax levy for 3.0 mills. It was passed in November 1996 as part of a \$1,455,000 bond issue for facility improvements. This levy generates approximately \$160,000 dollars in revenue for debt service payments.

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 2016, the District received \$5,430,087 through the State's foundation program, which represents 53.65 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.

Instruction accounts for 59.03 percent of governmental activities program expenses. Support services expenses make up 33.60 percent 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 2016 compared with fiscal year 2015. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Net Cost of Governmental Activities

	<u>Total Cost of Services</u> <u>2016</u>	<u>Net Cost of Services</u> <u>2016</u>	<u>Total Cost of Services</u> <u>2015</u>	<u>Net Cost of Services</u> <u>2015</u>
Program Expenses:				
Instruction:	\$5,423,528	\$4,276,479	\$4,967,552	\$3,730,799
Support Services:	3,087,279	2,833,286	3,113,099	2,807,446
Operational of Non-Instructional Services	386,383	38,311	369,219	28,823
Extracurricular Activities	262,185	156,069	258,669	183,699
Interest and Fiscal Charges	28,152	28,152	31,602	31,602
Total Expenses	<u>\$9,187,527</u>	<u>\$7,332,297</u>	<u>\$8,740,141</u>	<u>\$6,782,369</u>

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2016
(Unaudited)
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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 of \$10,422,614 and expenditures of \$9,633,609.

Total governmental funds fund balance increased by \$789,005. The fund balance in the General Fund increased by \$566,485 this was primarily due to Capacity Aid. The fund balance in the Bond Retirement Fund increased \$44,191 due primarily to inflows exceeding debt obligation payments.

The District should remain stable through fiscal year 2019. House Bill 64 created the biennium budget for fiscal years 2017 and 2018. The budget created a new funding line item titled Capacity Aid. Capacity Aid is for districts whose millage generates less than the state median for one mill of valuation. This funding will provide significant new funding for the district. Capacity Aid is very similar to funding mechanisms that have been implemented in the past which attempted to deal with low property wealth districts. The historicity funded line items of Equity and Parity Aid were eventually phased out of the funding formulas.

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 2016, 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 cash flow plan for the General Fund. Actual cash flow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

For the General Fund, the final budget basis revenue and other financing sources were \$8,926,193 representing a \$1,192,393 increase from the original budget estimate of \$7,733,800. The final budget reflected a 15.41 percent increase from the original budgeted amount. Most of this difference was due to the underestimate of Capacity Aid. For the General Fund, the final budget basis expenditures were \$9,063,203, representing a \$741,765 increase from the original budgeted expenditures of \$8,321,438.

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2016
(Unaudited)
(Continued)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the District had \$14.9 million invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of \$8.1 million.

Table 4 shows fiscal year 2016 balances compared to fiscal year 2015.

Table 4
Capital Assets & Accumulated Depreciation

	Governmental Activities	
	2016	2015
Nondepreciable Capital Assets:		
Land	\$23,487	\$23,487
Depreciable Capital Assets:		
Land Improvements	409,897	395,242
Buildings and Improvements	11,003,459	11,003,459
Furniture, Fixtures and Equipment	1,644,536	1,565,585
Vehicles	1,284,526	1,114,696
Library Books and Textbooks	538,343	538,343
Total Capital Assets	<u>14,880,761</u>	<u>14,640,812</u>
Less Accumulated Depreciation:		
Land Improvements	322,396	307,899
Buildings and Improvements	5,238,301	5,002,115
Furniture, Fixtures and Equipment	1,273,857	1,248,076
Vehicles	825,210	784,634
Library Books and Textbooks	458,138	443,586
Total Accumulated Depreciation	<u>8,117,902</u>	<u>7,786,310</u>
Totals	<u>\$6,786,346</u>	<u>\$6,854,502</u>

More detailed information pertaining to the District's capital asset activity can be found in Note 8 of the notes to the basic financial statements.

Debt Administration

At June 30, 2016 the District had \$490,000 in bonds outstanding with \$90,000 due within one year. Table 5 summarizes bonds outstanding for fiscal year 2016 compared to fiscal year 2015.

Table 5
Outstanding Debt

Purpose	Governmental Activities	
	2016	2015
School Improvement Refunding Bonds	\$490,000	\$575,000
Total	<u>\$490,000</u>	<u>\$575,000</u>

More detailed information pertaining to the District's long-term debt activity can be found in Note 13 of the notes to the basic financial statements.

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2016
(Unaudited)
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Current Issues

Although considered a mid-wealth district, the District has maintained financial stability primarily from monitoring expenditures and making necessary budget reductions. As indicated in the preceding financial information, the District is heavily dependent on intergovernmental revenue. Given the current inflationary increases, especially in terms of group health premium trends, the current program and staffing levels of the district will be dependent on increased state, local and federal funding. The challenge for all school districts is to provide a quality education to their students while staying within the restrictions imposed by limited, and in some cases shrinking, funding.

House Bill 64 established the current biennium budget for fiscal years 2016 and 2017. This biennium budget formula kept many of the same formulas that are driven by a district's wealth in terms of property valuation and taxable income. House Bill 64 created the new core funding component Capacity Aid. This line item resulted in revenue growth of approximately \$1,000,000 of unrestricted intergovernmental revenue. It is projected to generate approximately \$1,100,000 in FY 2017.

State legislation and the economy of the state greatly impact the financial stability of the District. The property values within the district are low. One voted mill will only generate approximately \$75,000. If the next biennium budget would significantly reduce Capacity Aid our local tax base could not absorb the loss of state revenue.

A building levy in 1996 and the participation in the Ohio School Facility Commission program allowed the district to construct a K-8 building and renovate our high school. The existing high school was originally constructed in 1955. The district will again begin the process of working with the Ohio Facilities Construction Commission to determine what forms of assistance will be available to renovate or replace the structure.

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 received. If you have any questions about this report or need additional information contact Lisa Ritchie, Treasurer of Eastern Local School Board of Education, 50008 State Route 681, Reedsville, Ohio 45772.

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**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Net Position
June 30, 2016**

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 3,154,121
Cash and Cash Equivalents with Fiscal Agents	426,606
Materials and Supplies Inventory	18,214
Accounts Receivable	104
Intergovernmental Receivable	236,115
Prepaid Items	55,843
Taxes Receivable	2,007,043
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	52,866
Non-Depreciable Capital Assets	23,487
Depreciable Capital Assets, net	6,762,859
Total Assets	<u>12,737,258</u>
 Deferred Outflow of Resources	
Deferred Charges on Refunding Pension	24,490
	<u>1,069,781</u>
Total Deferred Outflows of Resources	<u>1,094,271</u>
 Liabilities:	
Accounts Payable	84,166
Accrued Wages and Benefits	770,831
Intergovernmental Payable	200,687
Accrued Interest Payable	1,901
Claims Payable	128,392
Long-Term Liabilities:	
Due Within One Year	133,878
Due in More Than One Year	600,739
Net Pension Liability	10,760,484
Total Liabilities	<u>12,681,078</u>
 Deferred Inflows of Resources:	
Property Taxes Receivable	638,429
Pension	698,845
Total Deferred Inflows of Resources	<u>1,337,274</u>
 Net Position:	
Net Investment in Capital Assets	6,211,145
Restricted for:	
Debt Service	666,570
Capital	7,538
Other Purposes	994,279
Unrestricted	<u>(8,066,355)</u>
Total Net Position	<u>\$ (186,823)</u>

See Accompanying Notes to the Basic Financial Statements

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2016**

	Program Revenues			Net(Expense) Revenue and Changes in Net Position
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental Activities:				
Instruction:				
Regular	\$ 4,450,196	\$ 754,237	\$ 49,071	\$ (3,646,888)
Special	961,715	0	343,741	(617,974)
Student Intervention Services	11,315	0	0	(11,315)
Other	302	0	0	(302)
Support Services:				
Pupils	665,953	0	221,067	(444,886)
Instructional Staff	103,830	0	2,210	(101,620)
Board of Education	32,606	0	0	(32,606)
Administration	539,425	0	10,716	(528,709)
Fiscal	276,420	0	0	(276,420)
Operation and Maintenance of Plant	935,087	0	20,000	(915,087)
Pupil Transportation	452,423	0	0	(452,423)
Central	81,535	0	0	(81,535)
Operation of Non-Instructional Services	386,383	116,715	231,357	(38,311)
Extracurricular Activities	262,185	100,965	5,151	(156,069)
Interest and Fiscal Charges	28,152	0	0	(28,152)
Totals	\$ 9,187,527	\$ 971,917	\$ 883,313	(7,332,297)
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				1,396,265
Property Taxes, Levied for Debt Service				125,680
Property Taxes, Levied for Other				23,955
Grants and Entitlements not Restricted to Specific Programs				6,601,393
Gifts and Donations				27,730
Investment Earnings				11,058
Miscellaneous				80,860
Total General Revenues				8,266,941
Change in Net Position				934,644
Net Position Beginning of Year - Restated				(1,121,467)
Net Position End of Year				\$ (186,823)

See Accompanying Notes to the Basic Financial Statements

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2016**

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 1,481,845	\$ 555,233	\$ 956,729	\$ 2,993,807
Materials and Supplies Inventory	16,703	0	1,511	18,214
Accounts Receivable	104	0	0	104
Interfund Receivable	1,885	0	0	1,885
Intergovernmental Receivable		0	236,115	236,115
Prepaid Items	55,843	0	0	55,843
Taxes Receivable	1,815,652	161,910	29,481	2,007,043
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	52,866	0	0	52,866
Total Assets	\$ 3,424,898	\$ 717,143	\$ 1,223,836	\$ 5,365,877
Liabilities				
Current Liabilities:				
Accounts Payable	\$ 50,202	\$ 0	\$ 33,964	\$ 84,166
Accrued Wages and Benefits	686,928	0	83,903	770,831
Interfund Payable	0	0	1,885	1,885
Intergovernmental Payable	172,442	0	28,245	200,687
Total Liabilities	909,572	0	147,997	1,057,569
Deferred Inflow of Resources				
Property Levied for the Next Fiscal Year	578,960	50,573	8,896	638,429
Delinquent Property Tax Not Available	376,774	33,910	5,981	416,665
Deferred Intergovernmental Revenue	0	0	170,953	170,953
Total Deferred Inflows of Resources	955,734	84,483	185,830	1,226,047
Total Liabilities and Deferred Inflows of Resources	1,865,306	84,483	333,827	2,283,616
Fund Balances				
Nonspendable	72,546	0	1,511	74,057
Restricted	52,866	632,660	517,926	1,203,452
Committed	0	0	392,301	392,301
Assigned	951,036	0	0	951,036
Unassigned	483,144	0	(21,729)	461,415
Total Fund Balances	1,559,592	632,660	890,009	3,082,261
Total Liabilities and Fund Balances	\$ 3,424,898	\$ 717,143	\$ 1,223,836	\$ 5,365,877

See Accompanying Notes to the Basic Financial Statements

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities
June 30, 2016**

Total Governmental Fund Balances	\$	3,082,261
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Amounts reported for governmental activities on the statement of Net Position are different because:

The net pension liability is not due in the current period therefore, the liability and related deferree inflows/outflows are not reported in governmental funds:

Deferred Outflows - Pension	1,069,781	
Deferred Inflows - Pension	(698,845)	
Net Pension Liability	(10,760,484)	(10,389,548)

Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		6,786,346
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Some of the District's receivables will be collected after fiscal year-end, but are not available soon enough to pay current period's expenditures and therefore are deferred in the funds. These receivables consist of:

Property taxes	416,665	
Intergovernmental revenue	170,953	
Total		587,618

Unamortized issuance costs represent deferred outflows which do not provide current financial resources and are therefore not reported in the funds.		24,490
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Internal Service Fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the statement of Net Position.		458,528
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Some liabilities are not due and payable in the current and therefore are not reported in the funds. These liabilities consist of:

Accrued interest on bonds	(1,901)	
Refunding bonds	(525,908)	
Capital Leases	(18,274)	
Compensated Absences	(190,435)	(736,518)

Net Position of Governmental Activities	\$	(186,823)
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See Accompanying Notes to the Basic Financial Statements

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Property and Other Local Taxes	\$ 1,553,997	\$ 139,876	\$ 26,898	\$ 1,720,771
Intergovernmental	6,592,076	21,775	787,289	7,401,140
Interest	8,672	0	2,712	11,384
Tuition and Fees	726,245	0	0	726,245
Rent	27,992	0	0	27,992
Extracurricular Activities	4,108	0	96,857	100,965
Gifts and Donations	26,080	0	6,801	32,881
Customer Sales and Services	0	0	116,715	116,715
Miscellaneous	78,360	0	6,161	84,521
Total Revenues	<u>9,017,530</u>	<u>161,651</u>	<u>1,043,433</u>	<u>10,222,614</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	4,343,668	0	61,387	4,405,055
Special	608,298	0	332,015	940,313
Student Intervention Services	11,494	0	0	11,494
Other	302	0	0	302
Support Services:				
Pupils	519,597	0	174,108	693,705
Instructional Staff	96,507	0	1,816	98,323
Board of Education	32,725	0	0	32,725
Administration	552,556	0	10,716	563,272
Fiscal	295,173	5,169	928	301,270
Operation and Maintenance of Plant	799,972	0	20,000	819,972
Pupil Transportation	613,869	0	70	613,939
Central	82,675	0	0	82,675
Operation of Non-Instructional Services	6,811	0	379,996	386,807
Extracurricular Activities	175,878	0	84,068	259,946
Capital Outlay	105,844	0	0	105,844
Debt Service:				
Principal	4,442	85,000	0	89,442
Interest	1,234	27,291	0	28,525
Total Expenditures	<u>8,251,045</u>	<u>117,460</u>	<u>1,065,104</u>	<u>9,433,609</u>
Excess of Revenues Over (Under) Expenditures	<u>766,485</u>	<u>44,191</u>	<u>(21,671)</u>	<u>789,005</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In			200,000	200,000
Transfers Out	(200,000)			(200,000)
Total Other Financing Sources and Uses	<u>(200,000)</u>	<u>0</u>	<u>200,000</u>	<u>0</u>
Net Change in Fund Balances	<u>566,485</u>	<u>44,191</u>	<u>178,329</u>	<u>789,005</u>
Fund Balance at Beginning of Year	993,107	588,469	711,680	2,293,256
Fund Balance (Deficit) at End of Year	<u>\$ 1,559,592</u>	<u>\$ 632,660</u>	<u>\$ 890,009</u>	<u>\$ 3,082,261</u>

See Accompanying Notes to the Basic Financial Statements

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement Activities
For the Fiscal Year Ended June 30, 2016**

Net Change in Fund Balances - Total Governmental Funds	\$	789,005
Amounts reported for governmental activities on the statement of activities are different because of the following:		
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		626,782
Except for amounts reported as deferred inflows/outflows, changes in the net position liability are reported as pension expense in the statement of activities.		(531,848)
Governmental funds report capital outlay as expenditures. However, on 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 exceeds capital outlay in the current year.		
Capital Outlay - Depreciable Capital Assets	289,481	
Depreciation	<u>(354,908)</u>	(65,427)
The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of Net Position and is offset against the proceeds from the sale of capital assets resulting in a gain (loss) on disposal of capital assets on the statement of activities.		
Gain (Loss) on Disposal of Capital Assets		(2,729)
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:		
Intergovernmental	83,566	
Interest	(326)	
Gifts and donations	(5,151)	
Miscellaneous	(3,661)	
Delinquent Property Taxes	<u>(174,871)</u>	(100,443)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.		85,000
Payments on capital lease		4,442
Internal Service Fund is used by management to charge the costs of insurance to individual funds not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among governmental activities.		89,608
In the statement of activities, interest accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		373
Some expenses reported on the statement of activities, such as compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:		
Compensated Absences	<u>39,881</u>	<u>39,881</u>
Change in Net Position of Governmental Activities	\$	<u><u>934,644</u></u>

See Accompanying Notes to the Basic Financial Statements

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
June 30, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Property Taxes	\$ 1,283,000	\$ 1,473,698	\$ 1,473,917	\$ 219
Intergovernmental	5,705,000	6,591,875	6,592,076	201
Interest	5,000	8,500	8,672	172
Tuition and Fees	698,300	725,164	725,203	39
Rent	28,000	28,000	27,992	(8)
Gifts and Donations	2,000	18,000	19,256	1,256
Miscellaneous	2,500	31,700	31,684	(16)
Total Revenues	<u>7,723,800</u>	<u>8,876,937</u>	<u>8,878,800</u>	<u>1,863</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,268,984	4,425,580	4,466,898	(41,318)
Special	635,937	635,937	621,768	14,169
Student Intervention Services	11,645	11,645	10,292	1,353
Support services:				
Pupils	521,681	529,681	525,184	4,497
Instructional Staff	130,254	130,254	103,637	26,617
Board of Education	36,344	36,344	32,651	3,693
Administration	577,716	601,716	565,242	36,474
Fiscal	172,135	291,201	295,728	(4,527)
Operation and Maintenance of Plant	891,768	891,676	868,736	22,940
Pupil Transportation	738,510	837,285	660,544	176,741
Central	97,386	97,386	82,741	14,645
Operation of Non-Instructional Services	7,700	7,700	6,811	889
Extracurricular activities	175,378	192,248	188,822	3,426
Capital Outlay	56,000	174,550	178,534	(3,984)
Total Expenditures	<u>8,321,438</u>	<u>8,863,203</u>	<u>8,607,588</u>	<u>255,615</u>
Excess of Revenues Over (Under) Expenditures	<u>(597,638)</u>	<u>13,734</u>	<u>271,212</u>	<u>257,478</u>
Other Financing Sources (Uses):				
Advances In	10,000	2,656	2,656	0
Refund of Prior Year Expenditures	0	46,600	46,677	77
Transfers Out	0	(200,000)	(200,549)	(549)
Advances Out	0	0	(1,885)	(1,885)
Refund of Prior Year Receipts	0	0	(350)	(350)
Total Other Financing Sources (Uses)	<u>10,000</u>	<u>(150,744)</u>	<u>(153,451)</u>	<u>(2,707)</u>
Net Change in Fund Balance	(587,638)	(137,010)	117,761	254,771
Fund Balance at Beginning of Year	1,060,160	1,060,160	1,060,160	0
Prior Year Encumbrances Appropriated	104,989	104,989	104,989	0
Fund Balance at end of Year	<u>\$ 577,511</u>	<u>\$ 1,028,139</u>	<u>\$ 1,282,910</u>	<u>\$ 254,771</u>

See Accompanying Notes to Basic Financial Statements

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Fund Net Position
Internal Service Fund
June 30, 2016**

	<u>Internal Service</u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 160,314
Cash and Cash Equivalents with Fiscal Agents	<u>426,606</u>
Total Current Assets	<u>586,920</u>
LIABILITIES:	
Current Liabilities:	
Claims Payable	<u>128,392</u>
Net Position:	
Unrestricted	<u>458,528</u>
Total Net Position	<u>\$ 458,528</u>

See Accompanying Notes to Basic Financial Statements

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Revenues, Expenses and Changes in Fund Net Position
Internal Service Fund
June 30, 2016**

OPERATING REVENUES:

Charges for Services	\$ 1,375,096
Total Operating Revenues	<u>1,375,096</u>

OPERATING EXPENSES:

Claims	924,472
Other	<u>361,016</u>
Total Operating Expenses	<u>1,285,488</u>

Net Change in Net Position 89,608

Net Position (Deficit) at Beginning of Year - Restated 368,920

Net Position (Deficit) at End of Year \$ 458,528

See Accompanying Notes to Basic Financial Statements

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Cash Flows
Internal Service Fund
June 30, 2016**

	Internal Service
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Charges for Services	\$ 1,375,096
Payments for Other Operating Expenses	(361,016)
Payments for Claims	(919,319)
Net Cash from Operating Activities	94,761
Net Increase (Decrease) in Cash and Cash Equivalents	94,761
Cash and Cash Equivalents at Beginning of Year - Restated	492,159
Cash and Cash Equivalents at End of Year	\$ 586,920
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities:	
Operating Income (Loss)	\$ 89,608
Adjustments to Reconcile Operating Income to Net Cash from Operating Activities:	
Increase (Decrease) in Liabilities:	
Claims Payable	5,153
Net Cash Provided by Operating Activities	\$ 94,761

See Accompanying Notes to Basic Financial Statements

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2016**

	<u>Agency Fund</u>
Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ <u>52,700</u>
Liabilities	
Due to Students	\$ <u>52,700</u>

See Accompanying Notes to the Basic Financial Statements

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**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Description of the School District

Eastern Local School District (the District) is a body politic and corporate organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District is a local school district as defined by Ohio Revised Code Section 3311.03. The District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District was established in 1956. The District serves an area of approximately 115 square miles. It is located in Meigs County, and includes the communities of Reedsville, Tupper Plains and Chester, and the Townships of Orange, Olive, Chester and a portion of Bedford. It is staffed by 40 non-certificated employees, 59 certificated full-time teaching personnel and 5 administrative employees who provide services to 812 students and other community members. The District currently operates 2 instructional buildings, 1 administrative building and 1 garage.

Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure 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 the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; 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 has no component units.

The District is associated with five organizations, two of which are defined as jointly governed organizations and three as insurance purchasing pools. These organizations are the Jefferson Health Plan, the Southeast Ohio Voluntary Education Cooperative, the Coalition of Rural and Appalachian Schools, the Ohio School Boards Association Worker's Compensation Group Rating Plan, and the Schools of Ohio Risk Sharing Authority. These organizations are presented in Notes 18 and 19 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 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 standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

A. Basis of Presentation

The District's basic financial statement consists of government-wide financial 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. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District has no business-type activities.

The statement of net position presents the financial condition of the governmental activities of the District at yearend. 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 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 or capital requirements of 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 business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

During the year, the District segregates transactions related to certain District functions or activities in 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 rather than reporting by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions of the District are financed. Governmental funds focus 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 and liabilities is reported as fund balance.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

The following are the District's major governmental funds:

General Fund- This 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 General Fund is available to the District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Bond Retirement Fund- This fund is used to account for financial resources accumulated for the payment of general long-term debt principal, interest and related costs.

The other governmental funds of the District account for grants and other resources of the District 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 dental 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 only fiduciary fund is an agency fund which is used to account for student managed activities.

C. Measurement Focus

Government-Wide Financial Statements

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

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 generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance 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.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the financial statements of the fiduciary fund 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 revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions

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

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

Deferred Inflows of Resources and Deferred Outflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent 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 are reported on the government-wide statement of net position for deferred charges on refunding and for pension. 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 are explained in Note 10.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2016 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and 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 delinquent property taxes, intergovernmental grants, and miscellaneous revenues. 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 are reported on the government-wide statement of net position. (See Note 10).

Pensions

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

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. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

E. Cash and Cash Equivalents

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

During the fiscal year 2016, the District's investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for non-participating investment contracts, investments are reported at fair value which is based on quoted market prices. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2016.

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 2016 amounted to \$8,672, which includes \$3,382 assigned from other District funds.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

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

F. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed or used.

G. 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 imposed by enabling legislation. Restricted assets in the General Fund include amounts required by statute to be set-aside by the District for budget stabilization. See Note 16 for additional information regarding set-asides.

H. Capital Assets

General capital assets are associated with and generally arise from 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 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 and construction in progress, 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	20 – 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles	8 years
Library Books and Textbooks	5 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables." These amounts are eliminated in the governmental activities column of the statement of net position.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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 employee's rights to receive compensation are attributed 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 payments in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal 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 and administrators who have at least 20 years of service with the District.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees will be paid.

K. Accrued Liabilities and Long-Term Liabilities

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, compensated absences, special termination of benefits and contractually required pension contributions 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. Long-term bonds are recognized as a liability on the fund financial statements when due.

L. Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt 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 use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

M. Fund Balance

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:

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted – The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the District’s Board of Education.

Unassigned – The unassigned fund balance is the residual classification for the General Fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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.

N. 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.

O. Interfund Transactions

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

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. For the fiscal year 2016, the District reported no extraordinary or special items.

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 on 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. The District Treasurer has been authorized to allocate Board appropriations to the function and object level within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2016.

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.

NOTE 3 - ACCOUNTABILITY

The following funds had deficit fund balances as of June 30, 2016:

Nonmajor Special Revenue Funds:	
Title VI-B	\$5,603
Title I	15,501
Title II-A	623
Misc Federal	2

The deficits in these funds are the result of the application of generally accepted accounting principles and the requirement to accrue liabilities when incurred. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur. These deficits do not exist on the cash basis.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described earlier 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 (Non-GAAP Basis) and Actual (Budget Basis) is presented for the General Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and modified accrual 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/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance.
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

Net Change in Fund Balance	General
GAAP Basis	\$566,485
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2015, Received In Cash FY 2016	779,838
Accrued FY 2016, Not Yet Received in Cash	(907,048)
Expenditure Accruals:	
Accrued FY 2015, Paid in Cash FY 2016	(968,086)
Accrued FY 2016, Not Yet Paid in Cash	889,364
Advances Net	771
Net Non General Fund Cash Activity	5,495
Encumbrances Outstanding at Year End (Budget Basis)	(249,058)
Budget Basis	\$117,761

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.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 5 - DEPOSITS AND INVESTMENTS-(Continued)

Inactive deposits are public deposits that the Board has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must be either 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.

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

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

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

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 5 - DEPOSITS AND INVESTMENTS-(Continued)

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and GASB Statement No. 40, "Deposits and Investment Risk Disclosures."

Deposits: Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

At June 30, 2016, the carrying amount of all District deposits was \$1,731,494. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2016, \$1,712,245 of the District's bank balance of \$1,962,895 was exposed to custodial risk as discussed above while \$250,650 was covered by Federal Deposit Insurance. The \$1,712,245 exposed to custodial risk was collateralized with securities held by the District or its agency in the District's name.

Investments: As of June 30, 2016, the District had the following investments and maturities:

	Fair Value	6 Months or less
STAR Ohio	\$1,528,193	\$1,528,193
Total Investments	\$1,528,193	\$1,528,193

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

Credit Risk: "Standard and Poor's has assigned STAR Ohio an "AAA" money marked rating."

Custodial Credit Risk: For investments, custodial credit risk is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of its investments or collateral securities in the possession of an outside party. District policy provides that investment collateral is held by the counter party as trust department or agent, and may be held in the name of the District or not.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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 business) located in the District. Real property tax revenue received in calendar 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, 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.

Public utility real and tangible personal property taxes for 2016 were levied after April 1, 2015, on the assessed values as of December 31, 2014, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The District receives property taxes from Meigs County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016 are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents the delinquent taxes outstanding and real property, and public utility taxes which become measurable as of June 30, 2016. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The total amount available as an advance at June 30, 2016 was \$951,949 and is recognized as revenue. Of this total amount, \$859,918 was available to the General Fund, \$77,427 was available to the Bond Retirement Debt Service Fund, and \$14,604 was available to the Classroom Facilities Maintenance Nonmajor Special Revenue Fund.

Property taxes for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2016 operations have been recorded as deferred inflows of resources on the Statement of Net Position and Governmental Fund Balance Sheet.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 6 - PROPERTY TAXES-(Continued)

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second- Half Collections		2016 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$70,672,010	85.26%	\$74,100,650	78.88%
Public Utility Personal	12,216,890	14.74%	19,842,410	21.12%
Total Assessed Value	<u>\$82,888,900</u>	<u>100.00%</u>	<u>\$93,943,060</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$20.00		\$20.00	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2016 consisted of property taxes, accounts (student fees), interfund, and intergovernmental grants. 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 follows:

Governmental Activities

Nonmajor Special Revenue Funds:

Miscellaneous Federal Grant	\$165,370
ECSE	1,655
Title II - A	20,096
Title I	13,454
Idea Part - B	35,540
Total Intergovernmental	<u>\$236,115</u>

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 8 - CAPITAL ASSETS

Capital asset governmental activity for the fiscal year ended June 30, 2016 was as follows:

	<u>Balance at July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2016</u>
Capital Assets:				
Nondepreciable Capital Assets				
Land	\$23,487	\$0	\$0	\$23,487
Total Nondepreciable Capital Assets	<u>23,487</u>	<u>0</u>	<u>0</u>	<u>23,487</u>
Depreciable Capital Assets				
Land Improvements	395,242	14,655	0	409,897
Buildings and Improvements	11,003,459	0	0	11,003,459
Furniture, Fixtures and Equipment	1,565,585	104,996	26,045	1,644,536
Vehicles	1,114,696	169,830	0	1,284,526
Library Books and Textbooks	538,343	0	0	538,343
Total Depreciable Capital Assets	<u>14,617,325</u>	<u>289,481</u>	<u>26,045</u>	<u>14,880,761</u>
Less Accumulated Depreciation				
Land Improvements	307,899	14,497	0	322,396
Buildings and Improvements	5,002,115	236,186	0	5,238,301
Furniture, Fixtures and Equipment	1,248,076	49,097	23,316	1,273,857
Vehicles	784,634	40,576	0	825,210
Library Books and Textbooks	443,586	14,552	0	458,138
Total Accumulated Depreciation	<u>7,786,310</u>	<u>354,908</u>	<u>23,316</u>	<u>8,117,902</u>
Depreciable Capital Assets, Net	<u>6,831,015</u>	<u>(65,427)</u>	<u>2,729</u>	<u>6,762,859</u>
Total Capital Assets, Net	<u>\$6,854,502</u>	<u>(\$65,427)</u>	<u>\$2,729</u>	<u>\$6,786,346</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$194,142
Special	37,362
Support Services:	
Pupils	3,076
Instructional Staff	2,166
Administration	835
Fiscal	403
Operation and Maintenance of Plant	35,160
Pupil Transportation	42,368
Operation of Non-Instructional Services:	9,590
Extracurricular	29,806
Total Depreciation Expense	<u>\$354,908</u>

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 9 - 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. The District participates in the Schools of Ohio Risk Sharing Authority, Inc. for insurance coverage. Coverages provided are as follows:

Property Insurance	\$31,681,922
Equipment Breakdown	50,000,000
Automobile Liability	15,000,000
Wrongful Acts	15,000,000
Crime Coverage	100,000
General Liability:	
Per Occurrence	15,000,000
Total per Year	17,000,000

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

For fiscal year 2016, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 19). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

The District provides a health and dental insurance program for its employees. Premiums for dental insurance are paid directly to a third party administrator, Medical Claims Services, Inc., out of the District's Self-Insurance Internal Service Fund. Medical Claims Services, Inc. services all claims submitted by employees. Premiums for medical insurance are paid directly to the consortium, Jefferson Health Plan, out of the District's Self-Insurance Internal Service Fund. The Internal Service Fund presented in the financial statements reflects the premiums paid by the same funds that pay the employees' salaries. The premiums paid into the Internal Service Fund are used for claims, claim reserves and administrative costs. This District pays 100% of the premiums for dental insurance. Levels of contribution for the medical plan are contained in Note 12 – Employee Benefits.

The claims liability of \$128,392 reported at June 30, 2016 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 fiscal year are as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2015	\$5,782	\$976,737	\$859,280	\$123,239
2016	\$123,239	\$924,472	\$919,319	\$128,392

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 10 - 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 in 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.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 10 - 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 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, 2016, the allocation to pension, death benefits, and Medicare B was 14.00 percent. 0.0 percent was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$111,724 for fiscal year 2016. Of this amount \$27,760 is reported as an intergovernmental payable.

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.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 10 - 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, 2016, 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 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2016, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year 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 60 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. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 12 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 2016 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$499,787 for fiscal year 2016. Of this amount \$73,760 is reported as an intergovernmental payable.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

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

The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$2,065,493	\$8,610,046	\$10,675,539
Proportion of the Net Pension Liability	0.036198%	0.0314613%	
Pension Expense	\$129,302	\$402,546	\$531,848

At June 30, 2016, the District reported 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	\$33,258	\$396,381	\$429,639
Difference between District contributions and proportionate share of contributions	0	28,631	28,631
District contributions subsequent to the measurement date	<u>111,724</u>	<u>499,787</u>	<u>611,511</u>
Total Deferred Outflows of Resources	<u>\$144,982</u>	<u>\$924,799</u>	<u>\$1,069,781</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$68,436	\$625,334	\$693,770
Changes in proportion and differences			
Difference between District contributions and proportionate share of contributions	<u>5,075</u>	<u>0</u>	<u>5,075</u>
Total Deferred Inflows of Resources	<u>\$73,511</u>	<u>\$625,334</u>	<u>\$698,845</u>

\$611,511 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

	2017	(\$26,474)	(\$133,959)	(\$160,433)
	2018	(26,474)	(133,959)	(160,433)
	2019	(26,631)	(133,959)	(160,590)
	2020	<u>39,326</u>	<u>201,556</u>	<u>240,882</u>
Total		<u><u>(\$40,253)</u></u>	<u><u>(\$200,321)</u></u>	<u><u>(\$240,574)</u></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, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

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 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 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 (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 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.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
School District's proportionate share of the net pension liability	\$2,864,097	\$2,065,493	\$1,393,003

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the District's net pension liability is expected to be significant.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	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 paid on fifth anniversary of retirement date.

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 not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by 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	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	3.00
Total	<u>100.00 %</u>	

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. 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, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

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 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 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	\$12,077,999	\$8,694,991	\$5,834,154

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2016, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

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 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. 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. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 11 - POSTEMPLOYMENT BENEFITS – (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. 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 2016, the District's surcharge obligation was \$19,300.

The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$12,190, \$1,811 respectively. The full amount has been contributed for all three fiscal years.

B. State Teachers Retirement System

Plan Description – The State Teachers Retirement System of Ohio (STRS Ohio) administers a cost-sharing multiple-employer defined benefit Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. 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 Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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. For the fiscal years ended June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. For fiscal year ended June 30, 2014, one percent of covered payroll was allocated to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$35,417 respectively. The full amount has been contributed for all three fiscal years.

NOTE 12 - EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vested vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators who work less than 260 days per year do not earn vacation time.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 12 - EMPLOYEE BENEFITS (Continued)

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 250 days for classified employees and 245 for certified employees. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit up to a maximum of 50 days classified employees and 50 days for certified employees.

Health, Prescription Drug, and Life Insurance

The District participates in the Jefferson Health Plan. The district contributes premiums to the consortium for the purchase of health insurance benefits. The individual stop-loss amount is \$50,000 per year. The Program purchases additional stop loss insurance for the consortium. Three plans are offered to district employees. Plan A is a traditional preferred provider plan and employees contribute 10% of the cost of the premium which is \$852.64/\$1,827.08 single/family coverage. Plan B is a HDHP with an HSA the board contributes \$750/\$1500 to the HSA for certified employees and \$1,125/\$2,250 for classified employees to cover the high deductible and 100% of the premium which is \$705.98/\$1,638.43 single/family. Plan C is a HDHP with an HSA the board contributes \$750/\$1500 to the HSA for certified employees and \$1,125/\$2,250 for classified employees to cover the high deductible and 100% of the premium which is to cover the high deductible and 100% of the premium which is \$767.38/\$1,780.91 single/family.

The District provides life insurance and accidental death and dismemberment insurance to all employees through School Claims Services, Assurant Life in the amount of \$20,000 for classified employees and \$25,000 for certified employees. The Superintendent, Treasurer, and three principals have life insurance that is equal to their yearly salaries. The District pays 100% of the premiums.

NOTE 13 - LONG-TERM LIABILITIES

The changes in the District's long-term liabilities during fiscal year 2016 were as follows:

	Principal Outstanding At July 1, 2015	Additions	Deductions	Principal Outstanding At June 30, 2016	Amount Due Within One Year
<u>Governmental Activities:</u>					
2006 Refunding Bonds 5.125%	\$575,000	\$0	\$85,000	\$490,000	\$90,000
Premium on Bonds Issued	40,271	0	4,363	35,908	4,363
Capital Leases	22,716	0	4,442	18,274	4,714
Net Pension Liability	9,461,396	1,299,088	0	10,760,484	0
Compensated Absences	230,316	18,991	58,872	190,435	34,801
Total Governmental Activities Long-Term Obligations	<u>\$10,329,699</u>	<u>\$1,318,079</u>	<u>\$152,677</u>	<u>\$11,495,101</u>	<u>\$133,878</u>

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 13 - LONG-TERM LIABILITIES – (Continued)

Refunding General Obligation Bonds - During fiscal year 2008, the District issued \$1,055,000 of general obligation bonds for the advance refunding of \$1,105,000 of the 1997 series bonds. The proceeds of the refunding were deposited in an irrevocable trust to provide for all future debt service payments. The payment to the escrow agent resulted in an in-substance defeasance of the 1997 Series bonds. As a result, the liability for the 1997 Series bonds was removed as a liability of the District, except for a final \$50,000 payment due by the District on December 1, 2007. The \$70,812 premium on the issuance of the refunding bonds and the \$64,868 of bond issuance costs are netted against this new debt and will be amortized over the life of this new debt, which has the same remaining life of the refunded debt of 14 years with a final maturity of December 1, 2021. The refunding was undertaken to reduce total future debt service payments. The refunding resulted in an economic gain of \$165,036 and a reduction of \$159,092 in future debt service payments. The refunding bonds are retired through the Bond Retirement Fund using tax revenues.

The compensated absences are paid from the fund from which the respective employees' salaries are paid.

The District's overall legal debt margin was \$8,554,018 with an unvoted debt margin of \$93,943 at June 30, 2016.

The annual requirements to retire the general obligation renovation bonds outstanding at June 30, 2016 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Refunding Bonds</u>	<u>Interest</u>	<u>Total</u>
2017	\$90,000	\$22,806	\$112,806
2018	95,000	18,065	113,065
2019	95,000	13,197	108,197
2020	100,000	8,200	108,200
2021	110,000	2,819	112,819
Total	<u>\$490,000</u>	<u>\$65,087</u>	<u>\$555,087</u>

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 14 – 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 funds and all other governmental funds are presented below:

<u>Fund Balance</u>	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:				
Prepaid Items	\$55,843	\$0	\$0	\$55,843
Inventory	16,703	0	1,511	18,214
Restricted for:				
Set Asides	52,866	0	0	52,866
Special Revenues:				
Athletics	0	0	36,529	36,529
Facilities Maintenance	0	0	445,890	445,890
Food Service	0	0	27,087	27,087
Local Grants	0	0	882	882
Debt Service	0	632,660	0	632,660
Capital Projects	0	0	7,538	7,538
Committed:				
Eagle Express	0	0	2,740	2,740
Education Foundation	0	0	389,561	389,561
Assigned:				
Uniform School Supply	43	0	0	43
Community Education	7	0	0	7
Public School Support	2,682	0	0	2,682
Encumbrances	202,286	0	0	202,286
Appropriations	746,018	0	0	746,018
Unassigned	483,144	0	(21,729)	461,415
Total Fund Balance	\$1,559,592	\$632,660	\$890,009	\$3,082,261

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 15 - INTERFUND ACTIVITY

As of June 30, 2016, receivables and payables that resulted from various interfund transactions were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$1,885	\$0
Nonmajor Special Revenue Funds:		
Early Childhood Special Ed	0	1,655
Miscellaneous Federal Grant Fund	0	230
Total Nonmajor Special Revenue	<u>0</u>	<u>1,885</u>
Total	<u>\$1,885</u>	<u>\$1,885</u>

All the interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made.

NOTE 16 - 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 year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

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

	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-Aside Balance as of July 1, 2015	\$0	\$52,866
Current Year Set-Aside Requirement	137,657	0
Offset Credits	(28,554)	0
Qualifying Disbursements	(109,103)	0
Total	<u>\$0</u>	<u>\$52,866</u>
Set-aside Balance as of June 30, 2016	<u>\$0</u>	<u>\$52,866</u>
Total Restricted Assets		\$52,866

Senate Bill 345 eliminated the Budget Stabilization Reserve, except for amounts related to unspent Bureau of Workers compensation refunds. The Bill requires the Board of Education to designate its intended use of the Reserve. The Board of Education designated, by motion, that the reserve will be used to address unforeseen or emergency situations.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 17 – ENCUMBRANCE COMMITMENTS

At June 30, 2016, the District had encumbrance commitments in the General Fund in the amount of \$249,058.

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

Southeast Ohio Voluntary Education Cooperative (SEOVEC)

Southeast Ohio Voluntary Education Cooperative is a jointly governed organization created as a regional council of governments pursuant to State statutes. SEOVEC has 28 participants consisting of 25 school districts and 3 educational service centers. SEOVEC provides financial accounting services, educational management information, and cooperative purchasing services to member districts. Each member district pays a fee annually for services provided by SEOVEC. SEOVEC is governed by a governing board which is selected by the member districts. Each district has one vote in all matters, and each member district's control over budgeting and financing of SEOVEC is limited to its voting authority and any representation it may have on the governing board. Athens-Meigs Educational Service Center of Athens County serves as the fiscal agent. The continued existence of SEOVEC is not dependent on the District's continued participation and no equity interest exists. SEOVEC has no outstanding debt. Financial statements for SEOVEC can be obtained from the Southeast Ohio Voluntary Education Cooperative, 221 North Columbus Road, Athens, Ohio 45701. The District made payments of \$72,497 to SEOVEC in fiscal year 2016.

Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 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 that county. The Council provides various in service for school district administrative personnel; gathers of 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. The Council is not dependent on the continued participation of the District and the District does not maintain an equity interest in or financial responsibility for the Council. The District paid \$325 for membership in fiscal year 2016.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 19 - INSURANCE PURCHASING POOL

Jefferson Health Plan

The District participates in the Jefferson Health Plan, an insurance purchasing pool. The Plan's business and affairs are conducted by a Board of Trustees consisting of the current Superintendent of each of the school districts and county boards of education in the Plan. The Executive Director, or his designee, serves as coordinator of the program. Each month, the participating school districts pay a premium to the Plan to cover the costs of administering the program.

Ohio School Boards Association Worker's Compensation Group Rating Plan

The District participates in the Ohio School Boards Association Worker's Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Schools of Ohio Risk Sharing Authority

The District participates in the Schools of Ohio Risk Sharing Authority (SORSA), which was established in 2002 pursuant to Articles of Incorporation filed under Chapter 1702 of the Ohio Revised Code - Non-Profit Corporations and functioning under authority granted by Section 2744.081 of the Ohio Revised Code. SORSA's purpose is to provide a joint self-insurance pool and to assist member school districts in preventing and reducing losses and injuries to property and persons, which might result in claims being made against members of SORSA, their employees or officers.

A nine-person Board of Directors manages the business and affairs of SORSA and is elected annually by the members of the pool. The Board of Directors consists of superintendents, treasurers, or business managers from the participating school districts. SORSA employs an Executive Director and a Member Services Coordinator to administer the pool while claims are processed by Avizent. Financial information can be obtained from SORSA at 8050 North High Street, Suite 160, Columbus, Ohio 43235-6483 or by calling 866-767-7299.

NOTE 20 - CONTINGENCIES

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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2016.

School Foundation

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2015, 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, 2016 Foundation funding for the school district; therefore, the financial statement impact is not determinable at this time. ODE and management believe this may result in either a receivable to or a liability of the District.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

NOTE 21 – CAPITAL LEASES

In 2015, the District has entered into lease agreements for copiers. These lease obligations meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the fund financial statements. Principal payments in fiscal year 2016 totaled \$4,442 in the governmental funds. The equipment has been capitalized in the amount of \$24,490, the present value of the minimum lease payments at the inception of the lease.

The following is a schedule of the future minimum lease payments and the present value of the minimum lease payments as of June 30, 2016:

Fiscal Year Ending June 30,	General Long-Term Obligations
2017	\$5,676
2018	5,676
2019	5,676
2020	3,311
Total Future Minimum Lease Payments	20,339
Less: Amount Representing Interest	(2,066)
Present Value of Future Minimum Lease Payments	\$18,273

NOTE 22 – RESTATEMENT

For fiscal year 2015, the District's deposits with Jefferson Health Plan, a Third Party Administrator (TPA) were omitted from prior report. The following restatements have been added to the beginning balance on the Statement of Activities and Claims Payable. The restatement had the following effect on net position of the government wide statements and the internal service fund net position as reported June 30, 2015:

	Governmental Activities	Internal Service
Net Position June 30, 2015	(\$1,372,386)	\$118,001
Adjustments:		
Net amount held by TPA	250,919	250,919
Restated Net Position June 30, 2015	(\$1,121,467)	\$368,920
Claims Liability June 30, 2015	\$5,782	\$5,782
Adjustments:		
Claims with TPA	117,457	117,457
Restated Claims Liability June 30, 2015	\$123,239	\$123,239

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO
LAST THREE FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.036198%	0.036540%	0.036540%
District's proportionate share of the net pension liability	\$ 2,065,493	\$ 1,849,269	\$ 2,172,917
District's covered-employee payroll	\$ 1,127,853	\$ 1,293,511	\$ 1,247,176
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	183.13%	142.97%	174.23%
Plan fiduciary net position as a percentage of the total pension liability	69.16%	71.70%	65.52%

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

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO
LAST THREE FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.03146133%	0.03129540%	0.03129540%
District's proportionate share of the net pension liability	\$ 8,694,991	\$ 7,612,127	\$ 9,067,513
District's covered-employee payroll	\$ 3,197,529	\$ 3,219,008	\$ 3,587,100
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	271.93%	236.47%	252.78%
Plan fiduciary net position as a percentage of the total pension liability	72.10%	74.70%	69.30%

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

EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO
LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$ 111,724	\$ 148,651	\$ 169,450	\$ 163,380	\$ 160,799	\$ 162,413	\$ 160,001	\$ 84,646	\$ 110,690	\$ 99,399
Contributions in relation to the contractually required contribution	<u>(111,724)</u>	<u>(148,651)</u>	<u>(169,450)</u>	<u>(163,380)</u>	<u>(160,799)</u>	<u>(162,413)</u>	<u>(160,001)</u>	<u>(84,646)</u>	<u>(110,690)</u>	<u>(99,399)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 798,029	\$ 1,127,853	\$ 1,293,511	\$ 1,247,176	\$ 1,266,134	\$ 1,375,216	\$ 1,251,964	\$ 860,224	\$ 1,127,189	\$ 930,702
Contributions as a percentage of covered-employee payroll	14.00%	13.18%	13.10%	13.10%	12.70%	11.81%	12.78%	9.84%	9.82%	10.68%

EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO
LAST TEN FISCAL YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$ 499,787	\$ 447,654	\$ 418,471	\$ 466,323	\$ 465,976	\$ 479,919	\$ 468,943	\$ 430,382	\$ 404,954	\$ 439,971
Contributions in relation to the contractually required contribution	<u>(499,787)</u>	<u>(447,654)</u>	<u>(418,471)</u>	<u>(466,323)</u>	<u>(465,976)</u>	<u>(479,919)</u>	<u>(468,943)</u>	<u>(430,382)</u>	<u>(404,954)</u>	<u>(439,971)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 3,569,907	\$ 3,197,529	\$ 3,219,008	\$ 3,587,100	\$ 3,584,431	\$ 3,691,685	\$ 3,607,254	\$ 3,310,631	\$ 3,115,031	\$ 3,384,392
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR Pass-Through Grantor Program/Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
Child Nutrition Cluster			
Non-Cash Assistance (Food Distribution):			
National School Lunch Program	10.555	2015/2016	\$19,074
Cash Assistance:			
School Breakfast Program	10.553	2015/2016	68,489
National School Lunch Program	10.555	2015/2016	<u>155,267</u>
Total Child Nutrition Cluster			<u>242,830</u>
Total U.S. Department of Agriculture			242,830
U.S. DEPARTMENT OF EDUCATION			
<i>Direct Program From Federal Government</i>			
Fund for the Improvement of Education	84.215E	2015 2016	42,241 <u>141,939</u>
Total Fund for the Improvement of Education			184,180
<i>Passed Through Ohio Department of Education</i>			
Title I Grants to Local Educational Agencies	84.010	2015 2016	29,986 <u>141,899</u>
Total Title I Grants to Local Educational Agencies			171,885
Special Education Cluster			
Special Education - Grants to States	84.027	2015 2016	16,246 <u>132,048</u>
Total Special Education - Grants to States			148,294
Special Education Preschool Grants	84.173	2016	<u>1,655</u>
Total Special Education Cluster			149,949
Twenty-First Century Community Learning Centers	84.287	2015	7,598
Improving Teacher Quality State Grants	84.367	2015 2016	7,147 <u>48,082</u>
Total Improving Teacher Quality State Grants			<u>55,229</u>
Total U.S. Department of Education			<u>568,841</u>
Total Expenditures of Federal Awards			<u><u>\$811,671</u></u>

The accompanying notes are an integral part of this schedule.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR PART 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Eastern Local School District, Meigs County (the District's) under programs of the federal government for the year ended June 30, 2016. 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 District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

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 as applicable, either the cost principles contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments* (codified in 2 CFR Part 225), or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C – CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE D – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

NOTE E – TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amounts from 2015 to 2016 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amt. Transferred</u>
Title I Grants to Local Educational Agencies	84.010	\$76
Special Education - Grants to States	84.027	\$15,154
Improving Teacher Quality	84.367	\$12,809



Dave Yost • Auditor of State

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

Eastern Local School District
Meigs County
50008 State Route 681
Reedsville, Ohio 45772

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Eastern Local School District, Meigs County, Ohio (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 7, 2017, wherein we noted the District restated beginning July 1, 2015 Internal Service Fund balance to include health self-insurance activity.

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 opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying Schedule of Findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and a significant deficiency.

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 a 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. We consider findings 2016-001 and 2016-002 described in the accompanying Schedule of Findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2016-003 described in the accompanying Schedule of Findings to be a significant deficiency.

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*.

Entity's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

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 communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

March 7, 2017



Dave Yost • Auditor of State

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

Eastern Local School District
Meigs County
50008 State Route 681
Reedsville, Ohio 45772

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Eastern Local School District's, Meigs County, Ohio (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 the District's major federal program for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying Schedule of Findings identifies the District's major federal program.

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 program.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for the District's major federal program 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 the District's major program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2016.

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.



Dave Yost
Auditor of State
Columbus, Ohio

March 7, 2017

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
2 CFR PART 200.515
JUNE 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR Part 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list): • Child Nutrition Cluster – CFDA #'s 10.553 and 10.555	
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR Part 200.520?	Yes

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

FINDING NUMBER 2016-001

Material Weakness

Internal Service Funds account for services provided by one department to other departments of the government unit. The District had an internal service fund to account for the dental self-insurance during the audit period. However, the district was also self-insured for health insurance. The District did not account for the health self-insurance activity through the internal service fund, but rather paid premiums to Jefferson Health Plan directly from the funds from which employees were paid.

The District had an independent public accountant (IPA) compile the GAAP basic financial statements. During the compilation, the IPA posted activity that would have gone through the Internal Service Fund if the District was recording it properly. However, the IPA did not report all of the activity. The District made payments of \$1,282,157 to the Jefferson Health Plan, administrator of the health self-insurance plan. This amount would have been the revenues that would have gone to the Internal Service Fund.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
2 CFR PART 200.515
JUNE 30, 2016
(Continued)**

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

FINDING NUMBER 2016-001 (Continued)

Material Weakness (Continued)

The IPA reported an amount of \$925,624, resulting in an understatement of \$356,533 in Internal Service Fund Charges for Services. Additionally, the IPA reported payments for claims as \$873,037 but did not report payments for other administrative services which also resulted in an understatement of \$356,533 in Other Expenses. The audited financial statements have been adjusted to record the full activity of the health self-insurance in addition to the dental self-insurance that was already recorded by the District. Also, the IPA reported the Dental self-insurance receipts as Other Operating Sources of \$92,940 when they too should have been Charges for Services and the Dental self-insurance disbursements of \$50,766 were posted as Other Expenses when they should be Claims and disbursements of \$4,484 were posted as Claims when they should be Other Expenses.

Additionally, the health self-insurance activity began in a previous year so the beginning balance in the Internal Service Fund was restated, along with the cash balance (to include assets held at Jefferson Health Plan) and the claims payable. While the restatement amounts were correct, the IPA did not include a restatement note in the Notes to the Financial Statements and the Risk Management Note did not mention the health self-insurance plan even though claims activity was listed, making it appear as the activity was all related to the dental plan. The Notes to the Financial Statements have been adjusted to properly report these required disclosures.

The District should record the health self-insurance activity in an internal service fund similar to the dental self-insurance activity. Additionally, the District should review the financial statements and related Notes to the Financial Statements prepared by the IPA for accuracy and completeness.

Officials' Response:

The district will create a separate internal service fund to flow self-funded receipts from applicable governmental funds and expenditures for self-funded coverage to the Jefferson Health Plan. This situation was made known to the conversion IPA and the district was under the impression the conversion would adequately account for the activity of the self-insured medical plan and properly disclose the prior period adjustment. IPA did not file notes and statements in a timely fashion to allow for adequate review. The district acknowledges it is our responsibility to review the work of the IPA. The district will consider proposals from other IPA firms to prepare more competent and timely notes and financial statements.

FINDING NUMBER 2016-002

Material Weakness

Taxes receivable on the balance sheet consists of taxes levied for the next fiscal year plus delinquent tax amounts. The amount available as an advance at June 30, 2016 is reported as revenue on the operating statement in the current year. The delinquent amount is also reported as deferred inflows: delinquent taxes not available and the taxes levied for the next fiscal year less the amount available for advance is reported as deferred inflows: property taxes levied for the next fiscal year. On the Statement of Net Position, the delinquent tax amount is no longer deferred but instead reported as revenue on the statement of activities.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
2 CFR PART 200.515
JUNE 30, 2016
(Continued)**

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

FINDING NUMBER 2016-002 (Continued)

Material Weakness (Continued)

Both the delinquent tax amount and the amount available for advance are confirmed with the Meigs County Auditor during the annual financial statement GAAP conversion completed by an Independent Public Accountant (IPA). During the 2016 GAAP conversion, the IPA reversed the delinquent amount and the amount available for advance when determining the taxes receivable. As such, the delinquent amounts were included in revenue and the amount available for advance was included in the taxes receivable calculation. This resulted in the following errors:

- General Fund - Taxes receivable were overstated, tax revenue was understated, property taxes levied for the next fiscal year (deferred inflows) were overstated and delinquent taxes not available (deferred inflows) were overstated by \$483,144.
- Bond Retirement Fund - Taxes receivable were overstated, tax revenue was understated, property taxes levied for the next fiscal year (deferred inflows) were overstated and delinquent taxes not available (deferred inflows) were overstated by \$43,517.
- Other Governmental Funds (Classroom Facilities Maintenance Fund) - Taxes receivable were overstated, tax revenue was understated, property taxes levied for the next fiscal year (deferred inflows) were overstated and delinquent taxes not available (deferred inflows) were overstated by \$8,623.
- Government Activities - Taxes receivable were overstated and property taxes receivable (deferred inflows) were overstated by \$535,824.

The District Treasurer should review the IPA working papers and journal entries for reasonableness prior to filing of the annual financial report.

Officials' Response:

A confirmation was received from the Meigs County Auditor that appropriately disclosed the amount of taxes held by the county at June 30, 2016 and the value of delinquency for our district at June 30, 2016. This confirmation was provided to the IPA in a timely fashion. The conversion IPA reversed the amounts that resulted in the misstatements in the notes and financial statements. IPA did not file notes and statements in a timely fashion to allow for adequate review. The district acknowledges it is our responsibility to review the work of the IPA. The district will consider proposals from other IPA firms to prepare more competent and timely notes and financial statements.

FINDING NUMBER 2016-003

Significant Deficiency

Governmental Accounting Standards Board (GASB) Statement No. 68 addresses accounting for defined benefit and defined contribution pension plans. The requirements of this Statement apply to all Ohio state and local governments with a Generally Accepted Accounting Principles (GAAP) reporting requirement per OAC 117-02-03(B). GASB 68 is effective for financial statements for periods beginning after June 15, 2014.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
2 CFR PART 200.515
JUNE 30, 2016
(Continued)**

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

FINDING NUMBER 2016-003 (Continued)

Significant Deficiency (Continued)

The School District included the required information in the June 30, 2016 financial statements as required. However, the following errors in the calculations of the Net Pension Liability, Deferred Outflows, Deferred Inflows, and Pension Expense were noted:

- The IPA made a transposition error in the State Teachers Retirement System (STRS) total Net Pension Liability which resulted in an understatement of the District's Net Pension Liability in the amount of \$84,945.
- Deferred Outflow in the STRS calculations did not include Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions totaling \$28,631.
- Deferred Outflow in the STRS calculations did not include Employer Contributions made subsequent to the measurement date in the amount of \$499,787.
- Net Pension Expense in the STRS calculation did not include amortization of prior period amounts which resulted in an overstatement of \$16,086.
- The IPA did not adjust School Employees' Retirement System (SERS) amounts from the pension system for changes in expected and actual experience or differences between projected and actual investment earnings. The result was Deferred Outflows in the SERS calculations were overstated \$64,388, Deferred Inflows were understated \$40,307 and Pension Expense was overstated \$72,016.

The financial statements and related Notes to the Financial Statements were adjusted for the above noted items.

In addition, the Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to Statement Activities had errors in the following lines:

- Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows. This amount did not agree to the Notes to the Financial Statements by \$333,919 prior to the above noted adjustments.
- Except for amounts reported as deferred inflows/outflows, changes in the net position liability are reported as pension expense in the statement of activities. This amount did not agree to the Notes to the Financial Statements by \$4,191 prior to the above noted adjustments.

After the above adjustments were made, as well as making required changes to the related Notes to the Financial Statements, the Reconciliation was adjusted to correct the above two line items. However, when using corrected pension amounts, the Reconciliation did not reconcile by \$15,271. This indicates additional unidentified errors exist in the financial statements. As such, the contractually required contributions on the reconciliation are still overstated by \$15,271.

The Treasurer should review the calculations for reasonableness prior to filing of the District's annual financial report to ensure the financial statement conversion company follows the latest guidance in preparing net pension liability worksheets, Notes to the Financial Statements, and required supplementary information.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
2 CFR PART 200.515
JUNE 30, 2016
(Continued)**

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

FINDING NUMBER 2016-003 (Continued)

Significant Deficiency (Continued)

Officials' Response:

The district relies on the expertise of the conversion IPA to calculate this liability and note. The Treasurer will research GASB 68 to better understand the calculation and requirements. IPA did not file notes and statements in a timely fashion to allow for adequate review. The district acknowledges it is our responsibility to review the work of the IPA. The district will consider proposals from other IPA firms to prepare more competent and timely notes and financial statements.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**CORRECTIVE ACTION PLAN
2 CFR PART 200.511(c)
JUNE 30, 2016**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	Internal Service Fund will be created to account for the self-insured medical plan	March 2017	Lisa Ritchie
2016-002	IPA will be contacted to discuss the nature of the errors and a corrective plan will be developed.	March 2017	Lisa Ritchie
2016-003	IPA will be contacted to discuss the nature of the errors and a corrective plan will be developed	March 2017	Lisa Ritchie



Dave Yost • Auditor of State

EASTERN LOCAL SCHOOL DISTRICT

MEIGS 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 21, 2017**