



Rea & associates *a brighter way*

# East Holmes Local School District Holmes County, Ohio

## *Audited Financial Statements*

For the Fiscal Year Ended  
June 30, 2016





# Dave Yost • Auditor of State

Board of Education  
East Holmes Local School District  
6108 CR 77  
Millersburg, Ohio 44654

We have reviewed the *Independent Auditor's Report* of the East Holmes Local School District, Holmes County, prepared by Rea & Associates, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

December 27, 2016

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**East Holmes Local School District**  
**Holmes County, Ohio**  
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*June 30, 2016*

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October 29, 2016

To the Board of Education  
East Holmes Local School District  
Holmes County, Ohio  
6108 CR 77  
Millersburg, OH 44654

## **Independent Auditor's Report**

### **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 East Holmes Local School District, Holmes County, Ohio, (the School District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

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 East Holmes Local School District, Holmes County, Ohio, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, Schedule of the School Districts Proportionate Share of the Net Pension Liability* and *Schedule of School District Contributions* on pages 5-14, 59 and 60-61, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board* who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2016 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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 School District's internal control over financial reporting and compliance.

*Hea & Associates, Inc.*

Millersburg, Ohio



**East Holmes Local School District**  
**Holmes County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2016*

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The discussion and analysis of the East Holmes Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

***Financial Highlights***

Key financial highlights for 2016 are as follows:

- Net position increased \$1,278,756, which represents a 12 percent increase from 2015.
- Capital assets increased \$80,403 during fiscal year 2016.
- During the year, outstanding debt decreased from \$1,312,372 to \$1,125,000 due to capital appreciation bonds maturing during the fiscal year.

***Using this Annual Report***

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

The *Statement of Net Position and Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the East Holmes Local School District, the general fund is by far the most significant fund.

***Reporting the School District as a Whole***

*Statement of Net Position and the Statement of Activities*

While the basic financial statements contain the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2016?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the *Statement of Net Position* and the *Statement of Activities*, governmental activities include the School District's programs and services, including instruction, support services, extracurricular activities, and non-instructional services, i.e., food service operations.

***Reporting the School District's Most Significant Funds***

*Fund Financial Statements*

The analysis of major funds begins on page 12. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the School District's most significant funds. The School District's only major governmental fund is the general fund.

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

***Proprietary Fund*** The School District maintains one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District uses an internal service fund to account for its health insurance benefits. Because this service predominately benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements. The proprietary fund financial statements begin on page 22.

***Reporting the School District's Fiduciary Responsibilities***

The School District acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The School District's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities on page 25. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

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**The School District as a Whole**

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
<b>Assets</b>		
Current and Other Assets	\$ 20,111,515	\$ 18,609,963
Capital Assets	9,334,687	9,254,284
<i>Total Assets</i>	<u>29,446,202</u>	<u>27,864,247</u>
<b>Deferred Outflows of Resources</b>		
Deferred Charges on Refunding	55,461	69,326
Pension	3,306,082	1,804,091
<i>Total Deferred Outflows of Resources</i>	<u>3,361,543</u>	<u>1,873,417</u>
<b>Liabilities</b>		
Current and Other Liabilities	2,450,480	2,617,795
Long-Term Liabilities:		
Due Within One Year	323,836	300,780
Due in More Than One Year		
Net Pension Liability	26,812,317	23,153,670
Other Amounts	2,175,234	2,290,135
<i>Total Liabilities</i>	<u>31,761,867</u>	<u>28,362,380</u>
<b>Deferred Inflows of Resources</b>		
Property Taxes and Other	8,842,687	8,047,869
Deferred Charges on Refunding	0	0
Pension	1,785,389	4,188,369
<i>Total Deferred Inflows of Resources</i>	<u>10,628,076</u>	<u>12,236,238</u>
<b>Net Position</b>		
Net Investment in Capital Assets	8,190,023	8,075,903
Restricted	1,362,437	1,625,896
Unrestricted	(19,134,658)	(20,562,753)
<i>Total Net Position</i>	<u>\$ (9,582,198)</u>	<u>\$ (10,860,954)</u>

During fiscal year 2015, the School District adopted GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*, which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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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 School 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 School 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.

In accordance with GASB 68, the School 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 of resources. The School District is also reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

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At year end, capital assets represented 32 percent of total assets. Capital assets include land, land improvements, buildings and building improvements, furniture, fixtures, equipment and vehicles. The net investment in capital assets was \$8,190,023 at June 30, 2016. These capital assets are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net position, \$1,362,437, represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net position was a deficit of \$19,134,658.

There was a \$1,501,552 increase in current assets during 2016 which was primarily due to an increase in equity in pooled cash and investments and in property taxes receivable. The increase in equity in pooled cash and investments was due to increased property tax revenues and state foundation revenues which outpaced the timing of disbursements made. The increase in property taxes receivable and deferred inflows of property taxes levied for the next year was due to a change in the county auditor's formula for estimating expected revenues.

The \$3,399,487 increase in liabilities, \$2,402,980 decrease in deferred inflows of resources and \$1,501,991 increase in deferred outflows of resources were primarily caused by changes related to the pension plans during 2016.

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.

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Table 2 shows the changes in net position for fiscal year 2016 and 2015.

**Table 2**  
**Changes in Net Position**

	Governmental Activities	
	2016	2015
<b>Revenues</b>		
<i>Program Revenues:</i>		
Charges for Services and Sales	\$ 1,849,204	\$ 1,856,659
Operating Grants and Contributions	2,683,517	2,805,402
Capital Grants and Contributions	520,000	11,400
<i>Total Program Revenues</i>	<u>5,052,721</u>	<u>4,673,461</u>
<i>General Revenues:</i>		
Property Taxes	9,415,948	9,392,915
Grants and Entitlements Not Restricted	5,905,121	5,883,143
Other	87,512	224,724
<i>Total General Revenues</i>	<u>15,408,581</u>	<u>15,500,782</u>
<i>Total Revenues</i>	<u>20,461,302</u>	<u>20,174,243</u>
<b>Program Expenses</b>		
Instruction:		
Regular	7,530,384	7,609,851
Special	2,876,428	2,734,478
Vocational	158,180	190,139
Student Intervention Services	72,247	75,722
Other	222,375	211,815
Support Services:		
Pupils	872,783	856,536
Instructional Staff	853,693	802,716
Board of Education	27,228	30,772
Administration	1,740,322	1,766,437
Fiscal	575,596	521,683
Business	59,911	48,312
Operation and Maintenance of Plant	1,696,186	1,732,533
Pupil Transportation	1,157,915	1,281,123
Central	85,748	88,121
Operation of Non-Instructional Services:		
Food Service Operations	680,337	668,008
Extracurricular Activities	510,501	479,092
Debt Service:		
Interest and Fiscal Charges	62,712	100,999
<i>Total Expenses</i>	<u>19,182,546</u>	<u>19,198,337</u>
<i>Increase (Decrease) in Net Position</i>	<u>\$ 1,278,756</u>	<u>\$ 975,906</u>
<i>Net Position at Beginning of Year</i>	<u>(10,860,954)</u>	<u>(11,836,860)</u>
<i>Net Position at End of Year</i>	<u>\$ (9,582,198)</u>	<u>\$ (10,860,954)</u>

During fiscal year 2016 an all-purpose athletic facility was donated to the School District. This resulted in a significant increase in capital grants and contributions.

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

**Table 3**  
**Governmental Activities**

	Total Cost of Service		Net Cost of Service	
	2016	2015	2016	2015
<b>Instruction:</b>				
Regular	\$ 7,530,384	\$ 7,609,851	\$ 6,026,127	\$ 6,064,244
Special	2,876,428	2,734,478	1,383,803	1,146,476
Vocational	158,180	190,139	122,943	174,232
Student Intervention Services	72,247	75,722	60,666	68,825
Other	222,375	211,815	221,677	211,799
<b>Support Services:</b>				
Pupils	872,783	856,536	527,300	483,595
Instructional Staff	853,693	802,716	649,645	571,174
Board of Education	27,228	30,772	27,228	30,772
Administration	1,740,322	1,766,437	1,649,222	1,672,129
Fiscal	575,596	521,683	575,596	521,683
Business	59,911	48,312	59,911	48,312
Operation and Maintenance of Plant	1,696,186	1,732,533	1,696,186	1,732,533
Pupil Transportation	1,157,915	1,281,123	1,157,915	1,281,123
Central	85,748	88,121	80,149	79,342
<b>Operation of Non-Instructional Services:</b>				
Food Service Operations	680,337	668,008	18,979	58,543
Extracurricular Activities	510,501	479,092	(190,234)	279,095
<b>Debt Service:</b>				
Interest and Fiscal Charges	62,712	100,999	62,712	100,999
<b>Total Expenses</b>	<b>\$ 19,182,546</b>	<b>\$ 19,198,337</b>	<b>\$ 14,129,825</b>	<b>\$ 14,524,876</b>

The dependence upon general revenues for governmental activities is apparent. Over 73 percent of governmental activities are supported through taxes and other general revenues; such revenues are 75 percent of total governmental revenues. The community, as a whole, is by far the primary support for the School District students.

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***Governmental Funds***

Information about the School District's major funds starts on page 17. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$20,174,044 and expenditures of \$19,471,901 for the fiscal year.

The general fund's net change in fund balance for fiscal year 2016 was an increase of \$858,905, primarily due to the increase in property tax revenues and state foundation revenues which outpaced the timing of expenditures.

***General Fund Budgeting Highlights***

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

The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, actual budget basis revenue and other financing sources of \$16,254,433 was lower than the original and final budget basis revenue by \$28,220.

Final expenditure appropriations and other financing uses of \$16,150,699 were \$611,576 higher than the actual expenditures of \$15,539,123, as cost savings were recognized for instruction and support services throughout the year. In addition, the School District budgeted for a transfer that was not needed during the fiscal year.

***Capital Assets and Debt Administration***

**Capital Assets**

At the end of fiscal year 2016, the School District had \$9,334,687, invested in capital assets. Table 4 shows fiscal year 2016 balances compared with 2015.

**Table 4**  
**Capital Assets at June 30**  
**(Net of Depreciation)**

	Governmental Activities	
	2016	2015
Land	\$ 1,067,816	\$ 1,067,816
Land Improvements	790,076	856,587
Buildings and Building Improvements	6,721,336	6,502,591
Furniture, Fixtures and Equipment	354,869	414,726
Vehicles	400,590	412,564
<i>Totals</i>	\$ 9,334,687	\$ 9,254,284



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The \$80,403 increase in capital assets was attributable to additional purchases exceeding current year depreciation and disposals. This is due to the donation of an all-purpose athletic facility received by the School District. See Note 5 for more information about the capital assets of the School District.

**Debt**

At June 30, 2016, the School District had \$1,125,000 in debt outstanding. See Note 7 for additional details. Table 5 summarizes bonds outstanding.

**Table 5**  
**Outstanding Debt at Year End**

	Governmental Activities	
	2016	2015
<u>2007 Refunding Bonds</u>		
General Obligation Bonds	\$ 1,125,000	\$ 1,125,000
Capital Appreciation Bonds	0	28,802
Accretion on Capital Appreciation Bonds	0	158,570
<i>Total</i>	\$ 1,125,000	\$ 1,312,372

***School District Outlook***

The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast and the School District Continuous Improvement Plan.

The challenges faced by the School District are both internal and external in nature. The internal challenges will continue to exist as the School District must rely heavily on local real property taxes to fund its operations. External challenges continue as the State of Ohio struggles find a funding system that is fair and equitable to all school districts. Fiscal year 2014 - 2015 was the fourth new funding formula created since 2009. Fiscal year 2016 - 2017 State budget made alterations to the funding formula and added several new components.

Although the School District relies heavily on its real property taxpayers to support its operations, the community support for the schools has been quite strong. The East Holmes voters had renewed a \$550,000 emergency levy in May 2011, which will help fund the general operations of the School District through the first half of fiscal year 2020. The School District is expecting to have a positive general fund cash balance through the end of the 2021 fiscal year. The School District has communicated to the community they rely upon their continued support for the majority of its operations, and will continue to work diligently to plan expenses, staying carefully within the School District's financial five-year plan. The community also realizes the income generated by local levies remains relatively constant, therefore, forcing the School District to come back to the voters from time to time to ask for additional support. The School District's Management is constantly looking for alternate sources of income, as well as searching for ways to provide a more efficient means of doing business while at the same time continuing to provide excellent educational services.

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Externally, the state is using a new funding mechanism called the School Finance Payment Report to fund schools. The district is currently on the Transitional Aid Guarantee and does not foresee state funding increasing in the near future.

With 46 percent of the revenue for the School District coming from property taxes, one can see the significant impact this constraint could have on the School District and ultimately, the residential taxpayers.

As a result of the challenges mentioned above, it is imperative the School District's management continue to carefully and prudently plan in order to provide the resources required to meet student needs over the next several years.

***Contacting the School District's Financial Management***

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Kellie Breehl, Treasurer of East Holmes School District, 6108 CR 77, Millersburg OH 44654, or email at [EHLM\\_klester@tccsa.net](mailto:EHLM_klester@tccsa.net).

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Statement of Net Position*  
*June 30, 2016*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Investments	\$ 9,981,975
Inventory Held For Resale	30,734
Materials and Supplies Inventory	18,746
Receivables:	
Intergovernmental	466,053
Property Taxes	9,614,007
Nondepreciable Capital Assets	1,067,816
Depreciable Capital Assets (Net)	8,266,871
<i>Total Assets</i>	29,446,202
<b>Deferred Outflows of Resources</b>	
Deferred Charges on Refunding	55,461
Pension	3,306,082
<i>Total Deferred Outflows of Resources</i>	3,361,543
<b>Liabilities</b>	
Accounts Payable	91,942
Accrued Wages and Benefits	1,811,540
Intergovernmental Payable	349,045
Accrued Vacation Leave Payable	26,349
Matured Compensated Absences Payable	31,966
Accrued Interest Payable	3,750
Claims Payable	135,888
Long Term Liabilities:	
Due Within One Year	323,836
Due In More Than One Year:	
Net Pension Liability (See Note 11)	26,812,317
Other Amounts Due in More Than One Year	2,175,234
<i>Total Liabilities</i>	31,761,867
<b>Deferred Inflows of Resources</b>	
Property Taxes Levied for the Next Year	8,842,687
Pension	1,785,389
<i>Total Deferred Inflows of Resources</i>	10,628,076
<b>Net Position</b>	
Net Investment in Capital Assets	8,190,023
Restricted For:	
Capital Outlay	665,242
Debt Service	391,581
Other Purposes	305,614
Unrestricted	(19,134,658)
<i>Total Net Position</i>	\$ (9,582,198)

See accompanying notes to the basic financial statements.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*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	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$ 7,530,384	\$ 1,094,493	\$ 409,764	\$ 0	\$ (6,026,127)
Special	2,876,428	7,858	1,484,767	0	(1,383,803)
Vocational	158,180	0	35,237	0	(122,943)
Student Intervention Services	72,247	0	11,581	0	(60,666)
Other	222,375	0	698	0	(221,677)
Support Services:					
Pupils	872,783	197,971	147,512	0	(527,300)
Instructional Staff	853,693	91	203,957	0	(649,645)
Board of Education	27,228	0	0	0	(27,228)
Administration	1,740,322	0	91,100	0	(1,649,222)
Fiscal	575,596	0	0	0	(575,596)
Business	59,911	0	0	0	(59,911)
Operation and Maintenance of Plant	1,696,186	0	0	0	(1,696,186)
Pupil Transportation	1,157,915	0	0	0	(1,157,915)
Central	85,748	5,315	284	0	(80,149)
Operation of Non-Instructional Services:					
Food Service Operations	680,337	363,374	297,984	0	(18,979)
Extracurricular Activities	510,501	180,102	633	520,000	190,234
Debt Service:					
Interest and Fiscal Charges	62,712	0	0	0	(62,712)
<b>Total</b>	<b>\$ 19,182,546</b>	<b>\$ 1,849,204</b>	<b>\$ 2,683,517</b>	<b>\$ 520,000</b>	<b>(14,129,825)</b>
<b>General Revenues</b>					
Property Taxes Levied for:					
General Purposes					8,819,649
Debt Service					233,145
Capital Outlay					363,154
Grants and Entitlements Not Restricted to Specific Programs					5,905,121
Investment Earnings					19,782
Miscellaneous					67,730
<b>Total General Revenues</b>					<b>15,408,581</b>
<b>Change in Net Position</b>					<b>1,278,756</b>
<b>Net Position Beginning of Year</b>					<b>(10,860,954)</b>
<b>Net Position End of Year</b>					<b>\$ (9,582,198)</b>

See accompanying notes to the basic financial statements.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2016*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Investments	\$ 8,149,255	\$ 1,298,259	\$ 9,447,514
Inventory Held For Resale	0	30,734	30,734
Materials and Supplies Inventory	18,746	0	18,746
Receivables:			
Interfund	6,118	0	6,118
Intergovernmental	84,662	381,391	466,053
Property Taxes	9,007,682	606,325	9,614,007
<i>Total Assets</i>	<u>\$ 17,266,463</u>	<u>\$ 2,316,709</u>	<u>\$ 19,583,172</u>
<b>Liabilities</b>			
Accounts Payable	\$ 17,022	\$ 74,920	\$ 91,942
Accrued Wages and Benefits	1,468,225	343,315	1,811,540
Intergovernmental Payable	299,703	49,342	349,045
Matured Compensated Absences Payable	24,328	7,638	31,966
Interfund Payable	0	6,118	6,118
<i>Total Liabilities</i>	<u>1,809,278</u>	<u>481,333</u>	<u>2,290,611</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes Levied for the Next Year	8,285,007	557,680	8,842,687
Unavailable Revenue	83,606	104,390	187,996
<i>Total Deferred Inflows of Resources</i>	<u>8,368,613</u>	<u>662,070</u>	<u>9,030,683</u>
<b>Fund Balances</b>			
Nonspendable	18,746	0	18,746
Restricted	0	1,261,797	1,261,797
Assigned	274,109	0	274,109
Unassigned	6,795,717	(88,491)	6,707,226
<i>Total Fund Balances</i>	<u>7,088,572</u>	<u>1,173,306</u>	<u>8,261,878</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 17,266,463</u>	<u>\$ 2,316,709</u>	<u>\$ 19,583,172</u>

See accompanying notes to the basic financial statements.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Reconciliation of Total Governmental Fund Balances to*  
*Net Position of Governmental Activities*  
*June 30, 2016*

<b>Total Governmental Fund Balances</b>		\$ 8,261,878
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		9,334,687
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Intergovernmental	\$ 98,762	
Property Taxes	<u>89,234</u>	187,996
An 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.		398,573
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		(3,750)
In the statement of activities, a gain/loss on refunding is amortized over the term of the bonds, whereas in governmental funds a refunding gain/loss is reported when bonds are issued.		55,461
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	3,306,082	
Deferred Inflows - Pension	(1,785,389)	
Net Pension Liability	<u>(26,812,317)</u>	(25,291,624)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	(1,125,000)	
Bond Premium	(75,125)	
Vacations Payable	(26,349)	
Compensated Absences	<u>(1,298,945)</u>	<u>(2,525,419)</u>
<i>Net Position of Governmental Activities</i>		<u>\$ (9,582,198)</u>

See accompanying notes to the basic financial statements.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2016*

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Property and Other Local Taxes	\$ 8,820,099	\$ 596,394	\$ 9,416,493
Intergovernmental	6,084,638	2,702,880	8,787,518
Investment Income	19,782	0	19,782
Tuition and Fees	1,096,603	0	1,096,603
Extracurricular Activities	230,081	153,402	383,483
Rentals	5,748	0	5,748
Charges for Services	0	363,374	363,374
Contributions and Donations	34,679	75	34,754
Miscellaneous	43,987	22,302	66,289
<i>Total Revenues</i>	<u>16,335,617</u>	<u>3,838,427</u>	<u>20,174,044</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	6,902,053	581,323	7,483,376
Special	1,498,981	1,429,782	2,928,763
Vocational	170,222	0	170,222
Student Intervention Services	65,136	12,174	77,310
Other	226,769	734	227,503
Support Services:			
Pupils	764,726	153,984	918,710
Instructional Staff	538,921	305,635	844,556
Board of Education	27,382	0	27,382
Administration	1,655,820	107,866	1,763,686
Fiscal	571,169	15,171	586,340
Business	61,573	0	61,573
Operation and Maintenance of Plant	1,559,391	79,805	1,639,196
Pupil Transportation	1,117,038	80,243	1,197,281
Central	85,748	0	85,748
Extracurricular Activities	233,697	182,334	416,031
Operation of Non-Instructional Services:			
Food Service Operations	0	708,643	708,643
Capital Outlay	0	80,581	80,581
Debt Service:			
Principal Retirement	0	28,802	28,802
Interest and Fiscal Charges	0	226,198	226,198
<i>Total Expenditures</i>	<u>15,478,626</u>	<u>3,993,275</u>	<u>19,471,901</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>856,991</u>	<u>(154,848)</u>	<u>702,143</u>
<b>Other Financing Sources</b>			
Proceeds from Sale of Capital Assets	475	0	475
Insurance Recoveries	1,439	0	1,439
<i>Total Other Financing Sources</i>	<u>1,914</u>	<u>0</u>	<u>1,914</u>
<i>Net Change in Fund Balance</i>	858,905	(154,848)	704,057
<i>Fund Balances Beginning of Year</i>	<u>6,229,667</u>	<u>1,328,154</u>	<u>7,557,821</u>
<i>Fund Balances End of Year</i>	<u>\$ 7,088,572</u>	<u>\$ 1,173,306</u>	<u>\$ 8,261,878</u>

See accompanying notes to the basic financial statements.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2016*

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	704,057
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital Asset Additions	\$ 736,918	
Current Year Depreciation	<u>(651,797)</u>	85,121
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		
		(4,718)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property Taxes	(545)	
Intergovernmental	<u>(233,636)</u>	(234,181)
Repayment of outstanding bonds is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal	28,802	
Accreted Interest	<u>181,198</u>	210,000
In the statement of activities, interest is accrued on outstanding bonds, and bond premium and gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when bonds are issued.		
Amortization of Premium on Bonds	18,781	
Amortization of Refunding Loss	<u>(13,865)</u>	4,916
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		1,664,860
Except for amount reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities		
		(1,418,536)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		400,655
use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	(114,308)	
Vacations Payable	<u>3,518</u>	(110,790)
Accretion on capital appreciation bonds is an expenditure in the governmental funds, but is allocated as an expense over the life of the bonds in the statement of activities.		
		<u>(22,628)</u>
<i>Change in Net Position of Governmental Activities</i>	\$	<u><u>1,278,756</u></u>

See accompanying notes to the basic financial statements.



**East Holmes Local School District**  
**Holmes County, Ohio**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance -*  
*Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2016*

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
<b>Revenues</b>				
Property and Other Local Taxes	\$ 9,202,400	\$ 9,202,400	\$ 8,963,286	\$ (239,114)
Intergovernmental	6,052,753	6,052,753	6,016,775	(35,978)
Investment Income	17,000	17,000	19,782	2,782
Tuition and Fees	902,500	902,500	1,096,603	194,103
Extracurricular Activities	18,000	18,000	16,250	(1,750)
Rentals	10,000	10,000	5,748	(4,252)
Contributions and Donations	15,000	15,000	23,262	8,262
Miscellaneous	40,000	40,000	29,415	(10,585)
<i>Total Revenues</i>	<u>16,257,653</u>	<u>16,257,653</u>	<u>16,171,121</u>	<u>(86,532)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	7,039,748	7,039,748	6,877,406	162,342
Special	1,461,926	1,461,926	1,486,442	(24,516)
Vocational	201,066	201,066	184,480	16,586
Student Intervention Services	116,365	116,365	65,147	51,218
Other	236,000	236,000	265,864	(29,864)
Support Services:				
Pupils	575,329	575,329	601,825	(26,496)
Instructional Staff	654,845	654,845	539,330	115,515
Board of Education	33,300	33,300	26,552	6,748
Administration	1,705,445	1,705,445	1,759,042	(53,597)
Fiscal	529,621	529,621	565,425	(35,804)
Business	53,932	53,932	64,030	(10,098)
Operation and Maintenance of Plant	1,706,120	1,706,120	1,666,812	39,308
Pupil Transportation	1,242,335	1,242,335	1,131,044	111,291
Central	87,879	87,879	80,093	7,786
Extracurricular Activities	256,788	256,788	225,631	31,157
<i>Total Expenditures</i>	<u>15,900,699</u>	<u>15,900,699</u>	<u>15,539,123</u>	<u>361,576</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>356,954</u>	<u>356,954</u>	<u>631,998</u>	<u>275,044</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets	0	0	475	475
Refund of Prior Year Expenditures	25,000	25,000	81,398	56,398
Insurance Recoveries	0	0	1,439	1,439
Transfers Out	(250,000)	(250,000)	0	250,000
<i>Total Other Financing Sources (Uses)</i>	<u>(225,000)</u>	<u>(225,000)</u>	<u>83,312</u>	<u>308,312</u>
<i>Net Change in Fund Balance</i>	131,954	131,954	715,310	583,356
<i>Fund Balance Beginning of Year</i>	6,849,106	6,849,106	6,849,106	0
Prior Year Encumbrances Appropriated	150,461	150,461	150,461	150,461
<i>Fund Balance End of Year</i>	<u>\$ 7,131,521</u>	<u>\$ 7,131,521</u>	<u>\$ 7,714,877</u>	<u>\$ 733,817</u>

See accompanying notes to the basic financial statements.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Statement of Fund Net Position*  
*Proprietary Fund*  
*June 30, 2016*

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	Governmental Activities - Internal Service Fund
<b>Assets</b>	
<i>Current Assets</i>	
Equity in Pooled Cash and Investments	\$ 534,461
<b>Liabilities</b>	
<i>Current Liabilities</i>	
Claims Payable	135,888
<b>Net Position</b>	
Unrestricted	\$ 398,573

See accompanying notes to the basic financial statements.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Statement of Revenues, Expenses, and Changes in Fund Net Position*  
*Proprietary Fund*  
*For the Fiscal Year Ended June 30, 2016*

	<u>Governmental Activities - Internal Service Fund</u>
<b>Operating Revenues</b>	
Charges for Services	<u>\$ 2,583,827</u>
<b>Operating Expenses</b>	
Purchased Services	323,609
Claims	1,837,077
Other	<u>22,486</u>
<i>Total Operating Expenses</i>	<u>2,183,172</u>
<i>Operating Income (Loss)</i>	400,655
<i>Net Position Beginning of Year</i>	<u>(2,082)</u>
<i>Net Position End of Year</i>	<u><u>\$ 398,573</u></u>

See accompanying notes to the basic financial statements.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Statement of Cash Flows*  
*Proprietary Fund*  
For the Fiscal Year Ended June 30, 2016

	<u>Governmental Activities - Internal Service Fund</u>
<b>Cash Flows From Operating Activities</b>	
Cash Received from Customers	\$ 2,583,827
Cash Paid for Goods and Services	(323,609)
Cash Paid for Employee Benefits	(1,995,715)
Other Cash Payments	<u>(22,486)</u>
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u>242,017</u>
<i>Cash and Investments, Beginning of Year</i>	<u>292,444</u>
<i>Cash and Investments, End of Year</i>	<u><u>\$ 534,461</u></u>
 <b>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities</b>	
Operating Income (Loss)	\$ 400,655
Adjustments:	
Increase (Decrease) in Claims Payable	<u>(158,638)</u>
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u><u>\$ 242,017</u></u>

See accompanying notes to the basic financial statements.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Fiduciary Funds*  
*June 30, 2016*

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	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Investments	\$ 45,024
<b>Liabilities</b>	
Accounts Payable	\$ 1,025
Undistributed Monies	350
Due to Students	<u>43,649</u>
<i>Total Liabilities</i>	<u>\$ 45,024</u>

See accompanying notes to the basic financial statements.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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**NOTE 1: NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY**

The East Holmes Local School District (the School District) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. East Holmes Local School District is a Local School District as defined by Section 3311.03 of the Ohio Revised Code. The School District operates under an elected Board of Education (5 members) and is responsible for the provision of public education to residents of the School District.

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

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

The School District is involved with the Tri-County Computer Service Association (TCCSA) and Buckeye Career Center, which are defined as jointly governed organizations. Additional information concerning the jointly governed organizations is presented in Note 15.

Management believes the financial statements included in the report represent all of the funds of the School District over which the School District has the ability to exercise direct operating control.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

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

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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***Government-wide Financial Statements*** The Statement of Net Position and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid “doubling up” revenues and expenses.

The statement of net position presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School 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 and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

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

***B. Fund Accounting***

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

***Governmental Funds*** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets 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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following is the School District’s major governmental fund:

***General Fund*** The general fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the School District for any purpose provided if it expended or transferred according to general laws of Ohio.

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

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***Proprietary Fund Types*** Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service; the School District has no enterprise funds.

***Internal Service Fund*** The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for the operation of the School District's self-insurance program for employee medical benefits.

***Fiduciary Fund Type*** 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 School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are agency funds. The School District's agency funds account for student activities.

***C. Measurement Focus***

***Government-wide Financial Statements*** The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the School District are included on the Statement of Net Position. The Statement of Activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total 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 deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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



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***D. Basis of Accounting***

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

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

Non-exchange transactions, in which the School 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 9.) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

***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 School 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 11.

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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 School 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 2017 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 School District, unavailable revenue may include 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 11).

***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 governmental funds.

***E. Budgetary Data***

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

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Holmes County Budget Commission for rate determination.

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

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

***F. Cash and Investments***

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "equity in pooled cash and investments."

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. Certificates of deposit are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, identified the funds to receive an allocation of interest. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$19,782, which includes \$4,203 assigned from other School District funds.

Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash and investments. Investments with an original maturity of more than three months that are not made from the pool are reported as investments.

***G. Inventory***

Inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed/expended when used.

Inventories consist of donated and purchased food held for resale and supplies held for consumption.

***H. Capital Assets***

All capital assets of the School District are classified as general capital assets. 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.

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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 School District's capitalization threshold is \$2,500 for its general capital assets. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All 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:

Description	Governmental Activities Estimated Lives
Land Improvements	5 - 50 years
Buildings and Building Improvements	8 - 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles	7 - 10 years

***I. Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit.

For governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account "matured compensated absences payable" in the funds from which the employees will be paid. The non-current portion of the liability is not reported.

***J. 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.

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***K. Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund 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 and net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due.

***L. Net Position***

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. At June 30, 2016, there was no net position restricted by enabling legislation.

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

***M. Fund Balance***

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the School District classifies its fund balance based on the purpose for which the resources were received and the level of the constraint placed on the resources. The classifications are as follows:

*Nonspendable* – The nonspendable fund balance category include amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans 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* – 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.

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

*Assigned* – Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the School District Board of Education. The Board of Education has by resolution authorized the Treasurer to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget.

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

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

***N. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the funds. All revenues and expenses not meeting these definitions are reported as non-operating.

***O. Interfund Activity***

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

**East Holmes Local School District**  
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***P. Extraordinary and Special Items***

Extraordinary and special items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2016.

***Q. Estimates***

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

***R. Implementation of New Accounting Policies***

For the fiscal year ended June 30, 2016, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the School District.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School District.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School District.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the School District.

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**NOTE 3: BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis, as provided by law, is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. Accordingly, the “Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual” is presented for the general fund on the budgetary basis to provide a meaningful comparison of actual results with the budget and demonstrate compliance with the state statute. The major differences between the budget basis and the modified accrual basis of generally accepted accounting principles are that:

1. Revenues are recorded when received (budget basis) rather than when susceptible to accrual (GAAP basis)
2. Expenditures are recorded when paid or encumbered (budget basis) rather than when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as an assignment of fund balance (GAAP basis).
4. Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis for the general fund.

<b>Net Change in Fund Balance</b>	
	General
GAAP Basis	\$ 858,905
Net adjustment for revenue accruals	(367,757)
Net adjustment for expenditure accruals	533,153
Funds budgeted elsewhere**	(7,852)
Adjustment for encumbrances	(301,139)
Budget Basis	\$ 715,310

\*\*As part of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the uniform school supplies and public school support funds.



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**NOTE 4: DEPOSITS AND INVESTMENTS**

The East Holmes Local School District maintains a cash and investment pool used by various funds. Each fund type's portion of this pool is displayed on the Financial Statements as "Equity in pooled cash and investments."

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

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

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

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

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

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7. Certain bankers acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in any amount not to exceed forty percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During fiscal year 2016, the School District and public depositories complied with the provisions of these statutes.

**Deposits** Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. 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 collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School District.

At fiscal year-end, the carrying amount of the School District's deposits was \$9,915,067, which includes \$4,940 cash on hand. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2016, \$9,242,146 of the School District's bank balance of \$9,997,346 was exposed to custodial risk as discussed above, while \$755,200 was covered by Federal Deposit Insurance Corporation.

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**Investments** As of June 30, 2016, the School District had the following investment and maturity:

Investment Type	Measurement Amount	Maturity (in Months) 0 - 12	Percent of Total
STAR Ohio	\$ 111,932	\$ 111,932	100%

**Credit Risk** STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2016, is 49 days and carries a rating of AAAM by S&P Global Ratings.

**Concentration of Credit Risk** The School District places no limit on the amount that may be invested in any one issuer. During the fiscal year, the School District's only investment was in STAR Ohio.

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

**Custodial Credit Risk** For an investment, custodial risk is that risk that, in the event of the failure of the counterparty, the School District will no longer be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

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**NOTE 5: CAPITAL ASSETS AND ACCUMULATED DEPRECIATION**

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

	Balance 06/30/2015	Additions	Deletions	Balance 6/30/2016
<b>Governmental Activities</b>				
<i>Capital Assets not being depreciated</i>				
Land	\$ 1,067,816	\$ 0	\$ 0	\$ 1,067,816
<i>Capital Assets being depreciated</i>				
Land Improvements	1,741,709	11,286	0	1,752,995
Buildings and Building Improvements	16,287,602	616,982	0	16,904,584
Furniture, Fixtures and Equipment	1,963,065	23,407	(39,918)	1,946,554
Vehicles	1,647,733	85,243	(115,915)	1,617,061
<i>Total Capital Assets being depreciated</i>	<u>21,640,109</u>	<u>736,918</u>	<u>(155,833)</u>	<u>22,221,194</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(885,123)	(77,796)	0	(962,919)
Buildings and Building Improvements	(9,785,010)	(398,237)	0	(10,183,247)
Furniture, Fixtures and Equipment	(1,548,339)	(78,547)	35,200	(1,591,686)
Vehicles	(1,235,169)	(97,217)	115,915	(1,216,471)
<i>Total Accumulated Depreciation</i>	<u>(13,453,641)</u>	<u>(651,797) *</u>	<u>151,115</u>	<u>(13,954,323)</u>
<i>Total Capital Assets being depreciated, net</i>	<u>8,186,468</u>	<u>85,121</u>	<u>(4,718)</u>	<u>8,266,871</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 9,254,284</u>	<u>\$ 85,121</u>	<u>\$ (4,718)</u>	<u>\$ 9,334,687</u>

\*Depreciation expense was charged to governmental functions as follows:

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Instruction:	
Regular	\$ 289,005
Special	3,123
Vocational	1,373
Support Services:	
Instructional Staff	24,505
Administration	3,738
Fiscal Services	266
Operation and Maintenance of Plant	87,835
Pupil Transportation	91,311
Operation of Non-Instructional Services:	
Food Service Operations	5,831
Extracurricular Activities	<u>144,810</u>
Total Depreciation Expense	<u>\$ 651,797</u>

**NOTE 6: RECEIVABLES**

Receivables at June 30, 2016, consisted of taxes, interfund and intergovernmental. 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 fiscal year guarantee of federal funds. All receivables are expected to be collected within one year.

**NOTE 7: GENERAL LONG-TERM OBLIGATIONS**

	Outstanding Balance 06/30/2015	Additions	Reductions	Outstanding Balance 06/30/2016	Amount Due in One Year
<i>2007 Refunding Bonds (4.0%)</i>					
General Obligation Bonds	\$ 1,125,000	\$ 0	\$ 0	\$ 1,125,000	\$ 210,000
Capital Appreciation Bonds	28,802	0	(28,802)	0	0
Accretion on Capital Appreciation Bonds	158,570	22,628	(181,198)	0	0
Premium	93,906	0	(18,781)	75,125	0
<i>Total Refunding Bonds</i>	<u>1,406,278</u>	<u>22,628</u>	<u>(228,781)</u>	<u>1,200,125</u>	<u>210,000</u>
<i>Net Pension Liability:</i>					
STRS	18,962,349	3,257,370	0	22,219,719	0
SERS	4,191,321	401,277	0	4,592,598	0
<i>Total Net Pension Liability</i>	<u>23,153,670</u>	<u>3,658,647</u>	<u>0</u>	<u>26,812,317</u>	<u>0</u>
Compensated Absences	1,184,637	169,887	(55,579)	1,298,945	113,836
<i>Total Governmental Activities Long-Term Liabilities</i>	<u>\$25,744,585</u>	<u>\$ 3,851,162</u>	<u>\$ (284,360)</u>	<u>\$29,311,387</u>	<u>\$ 323,836</u>

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Compensated absences will be paid from the general fund and the food service fund. The School District pays obligations related to employee compensation from the fund benefitting from their service.

The 2001 Hiland renovation bonds were originally issued to update and expand the Hiland High School and Middle School facility. These bonds were refunded through the 2007 school improvement refunding general obligation bonds. At the date of refunding, \$2,134,115 (including premium and after underwriting fees and other issuance costs) was deposited in an irrevocable trust to provide for all future debt service payments on the 2000 School Improvement Bonds. The bonds are being repaid from the bond retirement fund.

In March, 2007, the School District issued \$1,940,000 of general obligation bonds to refund the 2000 school improvement general obligation bonds. The bonds were issued for a 14 year period with final maturity at December 1, 2020. These refunding bonds were issued with a premium of \$262,935 which is reported as an increase to bonds payable. The premium is being amortized to interest expense over the life of the bonds, using the straight-line method. The issuance costs of \$68,819 were expensed. The refunding resulted in a difference, reported in the accompanying financial statements as a deferred outflow of resources and is being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of this difference for fiscal year 2016 was \$13,865. The issuance resulted in a difference (savings) between the cash flows required to service the old debt and cash flows required to service the new debt of \$205,366. The issuance resulted in an economic gain of \$85,993.

The capital appreciation bonds for the 2007 issue matured on December 1, 2014 and December 1, 2015. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest was paid and the bond holder received the face value of the bond. As the value of the bond increased, the accretion was reflected as principal liability. The maturity amount of the bonds was \$420,000. The bonds were paid in full in fiscal year 2016 from the bond retirement fund.

The annual requirements to amortize all bonds outstanding as of June 30, 2016, are as follows:

	2007 Refunding Bonds	
	Principal	Interest
2017	\$ 210,000	\$ 40,800
2018	215,000	32,300
2019	225,000	23,500
2020	230,000	14,400
2021	245,000	4,900
<i>Total</i>	\$ 1,125,000	\$ 115,900

**NOTE 8: OPERATING LEASES**

The School District leases thirteen photocopier machines under a non-cancelable lease. The School District disbursed \$38,469 to pay lease costs for the fiscal year ended June 30, 2016. Future lease payments are as follows:

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Fiscal Year Ending June 30,	Amount
2017	\$ 34,361
2018	34,361
2019	34,361
2020	23,043
	\$ 126,126

**NOTE 9: PROPERTY TAXES**

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 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 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015 and are collected in 2016 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Holmes County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available as an advance at June 30, 2016 in the general, bond retirement and permanent improvement funds was \$639,069, \$16,682, and \$26,335, respectively. The amount available for advance at June 30, 2015, in the general, bond retirement and permanent improvement funds was \$782,256, \$21,130, and \$32,137, respectively. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2016 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources.

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

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
Real Estate	\$ 433,129,850	97%	\$ 447,567,240	97%
Public Utility Personal Property	11,916,080	3%	14,446,360	3%
<b>Total</b>	<b>\$ 445,045,930</b>	<b>100%</b>	<b>\$ 462,013,600</b>	<b>100%</b>
 Full Tax Rate Per \$1,000 of assessed valuation	 \$ 25.33		 \$ 25.26	

**NOTE 10: RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The School District has a comprehensive property and casualty policy with Liberty Mutual. The deductible is \$2,500 per incident on property and \$250 per incident on equipment. All vehicles are insured by Liberty Mutual and have a \$100 deductible on comprehensive claims and \$500 deductible for collisions. All board members, administrators and employees are covered under a school district liability policy with Ohio Casualty. The limits of this coverage are \$1,000,000 per occurrence and \$3,000,000 per aggregate. The Treasurer is covered under a surety bond in the amount of \$50,000. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years. There has been no significant reduction in amounts of insurance coverage from 2015.

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. The School District is a member of the Ohio School Board Association Group Rating System. This rate is calculated based on accident history and administrative costs. The group presently consists of over 400 school districts.

The School District maintains a health insurance plan for its employees. The monthly insurance premiums are paid to the Plan Administrator, Aultcare Corporation, and recorded as an expense on the School District's books. The School District accounts for this activity in an Internal Service Fund. The plan includes stop loss coverage with a limit of \$135,000 per individual and \$2,787,825 in the aggregate, per year.



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The claims liability of \$135,888 reported in the fund at June 30, 2016, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported.

	Balance		Current		Claims		Balance
	<u>Beginning of Year</u>		<u>Year Claims</u>		<u>Payments</u>		<u>End of Year</u>
2015	\$ 174,928	\$	2,421,663	\$	2,302,065	\$	294,526
2016	294,526		1,837,077		1,995,715		135,888

**NOTE 11: DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

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

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

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

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

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.

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***Plan Description - School Employees Retirement System (SERS)***

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

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on years 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 School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2016.

The School District’s contractually required contribution to SERS was \$434,652 for fiscal year 2016. Of this amount, \$28,462 is reported as an intergovernmental payable.

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***Plan Description - State Teachers Retirement System (STRS)***

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. 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 years 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, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 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.

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A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit 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 13 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$1,230,208 for fiscal year 2016. Of this amount, \$205,528 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$ 22,219,719	\$ 4,592,598	\$ 26,812,317
Proportion of the Net Pension Liability	0.08039823%	0.08048580%	
Pension Expense	\$ 1,075,569	\$ 342,967	\$ 1,418,536

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ 1,008,656	\$ 74,700	\$ 1,083,356
Changes in proportion and differences between School District contributions and proportionate share of contributions	557,866	0	557,866
School District contributions subsequent to the measurement date	<u>1,230,208</u>	<u>434,652</u>	<u>1,664,860</u>
<b>Total Deferred Outflows of Resources</b>	<u><u>\$ 2,796,730</u></u>	<u><u>\$ 509,352</u></u>	<u><u>\$ 3,306,082</u></u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$ 1,515,697	\$ 166,529	\$ 1,682,226
Changes in proportion and differences between School District contributions and proportionate share of contributions	<u>0</u>	<u>103,163</u>	<u>103,163</u>
<b>Total Deferred Inflows of Resources</b>	<u><u>\$ 1,515,697</u></u>	<u><u>\$ 269,692</u></u>	<u><u>\$ 1,785,389</u></u>

\$1,664,860 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal 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:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	\$ (195,143)	\$ (92,754)	\$ (287,897)
2018	(195,143)	(92,754)	(287,897)
2019	(195,139)	(93,112)	(288,251)
2020	<u>636,250</u>	<u>83,629</u>	<u>719,879</u>
	<u><u>\$ 50,825</u></u>	<u><u>\$ (194,992)</u></u>	<u><u>\$ (144,167)</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.

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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, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22.00 percent
COLA or Ad Hoc COLA	3.00 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.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
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
	<u>100.00 %</u>	

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**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 earnings 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 School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact, the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 6,368,283	\$ 4,592,598	\$ 3,097,325

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected Salary Increase	2.75 percent at 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2.00 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, 2015, 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:

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Asset Class	Target Allocation	Long Term Expected Real Rate of Return
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	1.00	3.00
	100.00 %	

**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 payments to determine the total pension liability as of June 30, 2015.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 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%)
School District's proportionate share of the net pension liability	\$ 30,864,866	\$ 22,219,719	\$ 14,908,958



**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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**NOTE 12: POSTEMPLOYMENT BENEFITS**

***A. School Employees Retirement System***

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 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](http://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.

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, SERS did not allocate any employer contributions to the Health Care Fund. 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.

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016, 2015, and 2014 were \$41,820, \$67,039 and \$46,378, respectively. For fiscal year 2016, 93 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2015 and 2014.

***B. State Teachers Retirement System***

Plan Description - The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and 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](http://www.strsoh.org) or by calling (888) 227-7877.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions 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 \$79,090, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

**NOTE 13: CONTINGENCIES AND SIGNIFICANT COMMITMENTS**

**A. Grants**

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2016, if applicable, cannot be determined at this time.

**B. Litigation**

The School District is not party to any claims or lawsuits that would, in the School District’s opinion, have a material effect of the basic financial statements.

**C. Other Commitments**

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

Fund	Amount
General Fund	\$ 274,109
Other Governmental	61,797
Total Governmental Funds	\$ 335,906

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

***D. School District Funding***

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, 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, 2015 or 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 will result in either a receivable to or liability of the School District.

**NOTE 14: SET-ASIDES**

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

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

	Capital Acquisition
Set-Aside Restricted Balance as of June 30, 2015	\$ 0
Current Year Set-Aside Requirement	310,087
Current Year Offsets	(405,931)
Totals	\$ (95,844)
Balance Carried Forward to Fiscal Year 2017	\$ 0
Set-Aside Restricted Balance as of June 30, 2016	\$ 0

Although the School District had offsets during the fiscal year that reduced the set-aside amount below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement of future years.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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**NOTE 15: JOINTLY GOVERNED ORGANIZATIONS**

**A. *Tri-County Computer Service Association (TCCSA)***

TCCSA is a jointly governed organization comprised of 28 school districts, created as a regional council of governments pursuant to State statute. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member School Districts. Each of the governments of these School District support TCCSA based on a per pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating School District and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee and at least an assembly member from each county from which participating School Districts are located. During fiscal year 2016, the School District paid \$37,334 in administrative fees to TCCSA.

**B. *Buckeye Career Center (Career Center)***

The Career Center, a joint vocational school established by the Ohio Revised Code, is a jointly governed organization providing vocational services to its eleven-member school districts. The Career Center is governed by a board of education comprised of eleven members appointed by the participating schools. The Board controls the financial activity of the Career center and reports to the Ohio Department of Education and the Auditor of the State of Ohio. The continued existence of the Career Center is not dependent on the School District's continued participation and measurable equity interest exists. During fiscal year 2016, no monies were paid to the Career Center by the School District.

**NOTE 16: FUND BALANCE**

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

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

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

	General	Other Governmental Funds	Total
Nonspendable for:			
Materials and Supplies Inventory	\$ 18,746	\$ 0	\$ 18,746
Restricted for:			
Debt Service	0	393,149	393,149
Capital Outlay	0	661,796	661,796
Student Activities	0	204,965	204,965
Grant Programs	0	1,887	1,887
Total Restricted	<u>0</u>	<u>1,261,797</u>	<u>1,261,797</u>
Assigned for:			
Encumbrances:			
Instruction	89,836	0	89,836
Support Services	182,859	0	182,859
Extracurricular Activities	1,414	0	1,414
Total Assigned	<u>274,109</u>	<u>0</u>	<u>274,109</u>
Unassigned	<u>6,795,717</u>	<u>(88,491)</u>	<u>6,707,226</u>
<i>Total Fund Balance</i>	<u><u>\$ 7,088,572</u></u>	<u><u>\$ 1,173,306</u></u>	<u><u>\$ 8,261,878</u></u>

**NOTE 17: INTERFUND BALANCES**

As of June 30, 2016 receivables and payables that resulted from cash advances from the general fund to other funds were as follows:

<b>Fund:</b>	Interfund Receivable	Interfund Payable
General	\$ 6,118	\$ 0
Other Governmental:		
Title I	0	1,145
Title III-D	0	4,973
Totals	<u><u>\$ 6,118</u></u>	<u><u>\$ 6,118</u></u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2016 are reported on the statement of net position.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2016*

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**NOTE 18: FUND DEFICITS**

Fund balances at June 30, 2016 included the following individual fund deficits:

<u>Nonmajor Governmental Fund</u>	<u>Deficit</u>
Food Service	\$ 41,988
IDEA-B Grant	5,123
Title I - Grant	41,380
	<u>\$ 88,491</u>

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*Last Three Fiscal Years (1)*

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b><i>State Teachers Retirement System (STRS)</i></b>			
School District's Proportion of the Net Pension Liability	0.08039823%	0.07795909%	0.07795909%
School District's Proportionate Share of the Net Pension Liability	\$ 22,219,719	\$ 18,962,349	\$ 22,587,826
School District's Covered-Employee Payroll	\$ 8,532,679	\$ 7,908,969	\$ 7,682,277
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	260.41%	239.76%	294.03%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%
<b><i>School Employees Retirement System (SERS)</i></b>			
School District's Proportion of the Net Pension Liability	0.08048580%	0.08281700%	0.08281700%
School District's Proportionate Share of the Net Pension Liability	\$ 4,592,598	\$ 4,191,321	\$ 4,924,861
School District's Covered-Employee Payroll	\$ 2,968,809	\$ 3,070,945	\$ 2,009,971
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	154.69%	136.48%	245.02%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Required Supplementary Information*  
*Schedule of School District Contributions*  
*Last Ten Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b><i>State Teachers Retirement System (STRS)</i></b>				
Contractually Required Contribution	\$ 1,230,208	\$ 1,194,575	\$ 1,028,166	\$ 998,696
Contributions in Relation to the Contractually Required Contribution	<u>(1,230,208)</u>	<u>(1,194,575)</u>	<u>(1,028,166)</u>	<u>(998,696)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's Covered-Employee Payroll	\$ 8,787,200	\$ 8,532,679	\$ 7,908,969	\$ 7,682,277
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%
 <b><i>School Employees Retirement System (SERS)</i></b>				
Contractually Required Contribution	\$ 434,652	\$ 391,289	\$ 425,633	\$ 278,180
Contributions in Relation to the Contractually Required Contribution	<u>(434,652)</u>	<u>(391,289)</u>	<u>(425,633)</u>	<u>(278,180)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's Covered-Employee Payroll	\$ 3,104,657	\$ 2,968,809	\$ 3,070,945	\$ 2,009,971
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%

n/a - Information prior to 2008 is not available.



<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 1,061,314	\$ 1,115,814	\$ 1,125,771	\$ 1,095,970	\$ 1,093,546	\$ 1,075,783
<u>(1,061,314)</u>	<u>(1,115,814)</u>	<u>(1,125,771)</u>	<u>(1,095,970)</u>	<u>(1,093,546)</u>	<u>(1,075,783)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 8,163,954	\$ 8,583,185	\$ 8,659,777	\$ 8,430,538	\$ 8,411,892	\$ 8,275,254
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
\$ 328,334	\$ 350,261	\$ 358,737	\$ 295,763	\$ 225,730	n/a
<u>(328,334)</u>	<u>(350,261)</u>	<u>(358,737)</u>	<u>(295,763)</u>	<u>(225,730)</u>	n/a
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	n/a
\$ 2,441,145	\$ 2,786,484	\$ 2,649,461	\$ 3,005,722	\$ 2,298,676	n/a
13.45%	12.57%	13.54%	9.84%	9.82%	n/a

October 29, 2016

To the Board of Education  
East Holmes Local School District  
Holmes County, Ohio  
6108 CR 77  
Millersburg, OH 44654

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Holmes Local School District, Holmes County, Ohio (the "School District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 29, 2016.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rea & Associates, Inc.*

Millersburg, Ohio

October 29, 2016

To the Board of Education  
East Holmes Local School District  
Holmes County, Ohio  
6108 CR 77  
Millersburg, OH 44654

**Independent Auditor's Report on Compliance for Each Major Federal Program and  
Internal Control Over Compliance Required by the Uniform Guidance**

***Report on Compliance for Each Major Federal Program***

We have audited East Holmes Local School District's, Holmes County, Ohio (the School District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2016. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Federal Program***

In our opinion, East Holmes Local School District, Holmes County, Ohio complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

***Report on Internal Control over Compliance***

Management of School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of School 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, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program 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 was not designed to 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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Rea & Associates, Inc.*

Millersburg, Ohio

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Schedule of Expenditures of Federal Awards*  
*For the Fiscal Year Ended June 30, 2016*

Federal Grantor/ Pass Through Grantor/ Program Title	CFDA Number	Grant Year	Federal Disbursements	Passed Through to Subrecipients
<b>U. S. Department of Education (Passed Through Ohio Department of Education):</b>				
Title I	84.010	2015	\$ 270,418	\$ 0
Title I	84.010	2016	1,454,183	0
Total Title I			1,724,601	0
IDEA-B	84.027	2015	57,445	0
IDEA-B	84.027	2016	325,469	0
Total IDEA-B			382,914	0
Title III	84.365	2015	33,678	0
Title III	84.365	2016	97,580	0
Total Title III			131,258	0
Title II-A	84.367	2015	29,937	0
Title II-A	84.367	2016	175,134	0
Total Title II-A			205,071	0
Total U.S. Department of Education			2,443,844	0
<b>U. S. Department of Agriculture (Passed Through Ohio Department of Education):</b>				
<i>Child Nutrition Cluster:</i>				
<i>Non-Cash Assistance:</i>				
National School Lunch Program	(D) 10.555	2016	47,405	0
School Breakfast Program	(D) 10.553	2016	9,275	0
<i>Non-Cash Assistance Subtotal:</i>			56,680	0
<i>Cash Assistance:</i>				
National School Lunch Program	(C) 10.555	2016	242,458	0
School Breakfast Program	(C) 10.553	2016	47,437	0
<i>Cash Assistance Subtotal:</i>			289,895	0
<i>Total Child Nutrition Cluster</i>			346,575	0
Total U.S. Department of Agriculture			346,575	0
Total Federal Assistance			\$ 2,790,419	\$ 0

See accompanying notes to the Schedule of Expenditures of Federal Awards

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Notes to the Schedule of Expenditures of Federal Awards*  
*2 CFR 200.510(b)(6)*  
*For the Fiscal Year Ended June 30, 2016*

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**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of East Holmes Local School District (the School District) 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 School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School 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 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 Government 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 School District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School District assumes it expends federal monies first.

**NOTE D – FOOD DONATION PROGRAM**

The School District reports commodities consumed on the Schedule at the entitlement value. The School District allocated donated food commodities to the respective programs that benefited from the use of those donated food commodities.

**East Holmes Local School District**  
**Holmes County, Ohio**  
*Schedule of Findings and Questioned Costs*  
*2 CFR Section 200.515*  
*June 30, 2016*

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

<b>2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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None were noted

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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None were noted





# Dave Yost • Auditor of State

**EAST HOLMES LOCAL SCHOOL DISTRICT**

**HOLMES 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  
JANUARY 10, 2017**