



Dave Yost • Auditor of State

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY
JUNE 30, 2017**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	15
Statement of Activities.....	16
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	17
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds.....	19
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities	20
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund.....	21
Statement of Fund Net Position - Internal Service Fund	22
Statement of Revenues, Expenses and Changes in Fund Net Position Internal Service Fund	23
Statement of Cash Flows - Internal Service Fund	24
Statement of Fiduciary Net Position - Fiduciary Fund	25
Notes to the Basic Financial Statements	27

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY
JUNE 30, 2017**

**TABLE OF CONTENTS
(Continued)**

TITLE	PAGE
Prepared by Management (Continued):	
Required Supplementary Information:	
Schedule of the District's Proportionate Share of the Net Pension Liability School Employees Retirement System (SERS) of Ohio.....	59
Schedule of the District's Proportionate Share of the Net Pension Liability State Teachers Retirement System (STRS) of Ohio	60
Schedule of District Contributions School Employees Retirement System (SERS) of Ohio	61
Schedule of District Contributions State Teachers Retirement System (STRS) of Ohio.....	62
Notes to Required Supplementary Information	63
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	65
Schedule of Findings.....	67
Prepared by Management:	
Summary Schedule of Prior Audit Findings	69



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Eastern Local School District, Meigs County, Ohio (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Eastern Local School District, Meigs County, Ohio, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

February 8, 2018

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017
(Unaudited)

The discussion and analysis of the Eastern Local School District's (District's) financial performance provides an overview and analysis of the District's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review our notes to the basic financial statements and the financial statements themselves to enhance their understanding of the District's financial performance.

Financial Highlights

The assets and deferred outflows of resources of the District were greater than its liabilities and deferred inflows of resources at June 30, 2017 by \$283,204. Of this amount, \$7,755,065 represents the amount invested in capital assets, net of related debt, and net position amounts restricted for specific purposes. The remaining (\$7,471,861) represents unrestricted net position.

In total, net position of governmental activities increased by \$470,027, which represents a 252 percent increase from 2016.

General revenues accounted for \$8,214,681 or 79.69 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,093,671 or 20.31 percent of total revenues of \$10,308,352.

The District had \$9,838,325 in expenses related to governmental activities; only \$2,093,671 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues (primarily taxes and grants and entitlements) of \$8,214,681 were used to provide for the remainder of these programs.

The District recognizes two major governmental funds: The General and the Bond Retirement Funds. In terms of dollars received and spent, the General Fund is significantly larger than all the other governmental funds of the District combined. The General Fund had \$9,372,242 in revenues and \$8,565,328 in expenditures in fiscal year 2017.

Using this Annual Report

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

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

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017
(Unaudited)
(Continued)

Reporting the District as a Whole

Government-Wide Financial Statements

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major funds begins on page 11. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund and the Bond Retirement Fund.

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

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017
(Unaudited)
(Continued)

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

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

Proprietary Fund

The District's only proprietary fund is an internal service fund. Since the internal service fund operates on a break-even, cost-reimbursement basis, the District reports it as a proprietary fund using the full accrual basis of accounting.

Fiduciary Fund

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017
(Unaudited)
(Continued)

Government-Wide Financial Analysis

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2017 compared to 2016.

Table 1
Net Position
Governmental Activities

	2017	2016
Assets		
Current and Other Assets	\$6,679,689	\$5,950,912
Capital Assets, Net	6,609,351	6,786,346
Total Assets	<u>13,289,040</u>	<u>12,737,258</u>
Deferred Outflows of Resources		
Deferred Charge on Refunding	20,127	24,490
Pension	2,404,699	1,069,781
Total Deferred Outflows of Resources	<u>2,424,826</u>	<u>1,094,271</u>
Liabilities		
Current and Other Liabilities	1,104,750	1,185,977
Long-Term Liabilities:		
Due Within One Year	155,681	133,878
Due Within More Than One Year:		
Net Pension Liability	12,953,547	10,760,484
Other Amounts	498,809	600,739
Total Liabilities	<u>14,712,787</u>	<u>12,681,078</u>
Deferred Inflows of Resources		
Property Taxes	507,192	638,429
Pension	210,683	698,845
Total Deferred Inflows of Resources	<u>717,875</u>	<u>1,337,274</u>
Net Position		
Net Investment in Capital Assets	6,167,267	6,211,145
Restricted	1,587,798	1,668,387
Unrestricted	(7,471,861)	(8,066,355)
Total Net Position	<u>\$283,204</u>	<u>(\$186,823)</u>

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017
(Unaudited)
(Continued)

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 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 District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017
(Unaudited)
(Continued)

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.

Current and other assets increased \$728,777 from fiscal year 2016 due to an increase in cash and cash equivalents held by the District. Capital assets decreased by \$176,995 or 2.61 percent due to current year depreciation expense.

Current (other) liabilities decreased by \$81,227 or 6.85 percent.

Long-term liabilities increased by \$2,112,936 due to the increase in net pension liability.

The District's largest portion of net position is related to amounts invested in capital assets \$6,167,267, net of related debt. The District used these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to pay these liabilities.

The next largest portion of net position of \$1,587,798 is restricted net position. The restricted net position is subjected to external restrictions on how they may be used.

The District's unrestricted balance is (\$7,471,861). This net position represents resources that may be used to meet the District's ongoing obligations to its students and creditors.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2017 and 2016.

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017
(Unaudited)
(Continued)

Table 2
Change in Net position
Governmental Activities

	2017	2016
Revenues:		
Program Revenues:		
Charges for Services and Sales	\$1,029,120	\$971,917
Operating Grants and Contributions	1,064,551	883,313
General Revenues:		
Property Taxes	1,858,245	1,545,900
Unrestricted Grants and Entitlements	6,313,806	6,601,393
Gifts and Donations	9,013	27,730
Investment Earnings	23,008	11,058
Miscellaneous	10,609	80,860
Total Revenues	10,308,352	10,122,171
Expenses:		
Program Expenses		
Instruction:		
Regular	4,929,170	4,450,196
Special	993,295	961,715
Student Intervention Services	4,411	11,315
Other		302
Support Services:		
Pupils	597,994	665,953
Instructional Staff	68,421	103,830
Board of Education	35,632	32,606
Administration	639,952	539,425
Fiscal	321,591	276,420
Operation and Maintenance of Plant	963,425	935,087
Pupil Transportation	538,956	452,423
Central	95,785	81,535
Operational of Non-Instructional Services	383,137	386,383
Extracurricular Activities	243,184	262,185
Interest and Fiscal Charges	23,372	28,152
Total Expenses	9,838,325	9,187,527
Change in Net position	470,027	934,644
Net position – Beginning of Year	(186,823)	(1,121,467)
Net position – End of Year	\$283,204	(\$186,823)

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017
(Unaudited)
(Continued)

The most significant program expenses for the District are Regular Instruction, Special Instruction, Operation and Maintenance of Plant and Pupils. These programs account for 69.99 percent of the total governmental activities. Regular Instruction, which accounts for 50.10 percent of the total, represents costs associated with providing general educational services. Special Instruction, 10.10 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Operation and Maintenance of Plant, which represents 9.79 percent of the total, represent costs associated with operating and maintaining the District's facilities. Pupils, which represents 6.08 percent of the total, represents costs associated with providing services to assess and improve the well-being of students or to supplement the teaching process.

The majority of the funding for the most significant programs indicated above is from operating grants and contributions and grants and entitlements not restricted for specific programs. Operating grants and contributions and grants and entitlements not restricted for specific programs account for 71.57 percent of total revenues.

Governmental Activities

Over the past several fiscal years, the District has remained in stable financial condition. This has been accomplished through strong voter support and good fiscal management. The District is heavily dependent on property taxes and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Property taxes made up 18.03 percent and intergovernmental revenue made up 71.57 percent of the total revenue for the governmental activities in fiscal year 2017.

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

The District's intergovernmental revenue consists of school foundation basic allowance, homestead and rollback property tax allocation, and federal and state grants. During fiscal year 2017, the District received \$5,770,810 through the State's foundation program, which represents 55.98 percent of the total revenue for the governmental activities. The District relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 60.24 percent of governmental activities program expenses. Support services expenses make up 33.15 percent and charges for services and grants offsetting those services.

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2017 compared with fiscal year 2016. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Net Cost of Governmental Activities

	<u>Total Cost of Services</u> <u>2017</u>	<u>Net Cost of Services</u> <u>2017</u>	<u>Total Cost of Services</u> <u>2016</u>	<u>Net Cost of Services</u> <u>2016</u>
Program Expenses:				
Instruction	\$5,926,876	\$4,277,781	\$5,423,528	\$4,276,479
Support Services	3,261,756	3,261,756	3,087,279	2,833,286
Operational of Non-Instructional Services	383,137	17,460	386,383	38,311
Extracurricular Activities	243,184	164,285	262,185	156,069
Interest and Fiscal Charges	23,372	23,372	28,152	28,152
Total Expenses	<u>\$9,838,325</u>	<u>\$7,744,654</u>	<u>\$9,187,527</u>	<u>\$7,332,297</u>

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017
(Unaudited)
(Continued)

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. (See Note 2 for discussion of significant accounting policies). All governmental funds had total revenues of \$10,422,766 and expenditures of \$9,538,474.

Total governmental funds fund balance increased by \$884,292. The fund balance in the General Fund increased by \$806,914 this was primarily due to Capacity Aid. The fund balance in the Bond Retirement Fund increased \$20,863 due primarily to inflows exceeding debt obligation payments.

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

Budget Highlights - General Fund

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

During the course of fiscal year 2017, the District amended its General Fund budget several times. The District uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisor's flexibility for site management.

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

For the General Fund, the final budget basis revenue and other financing sources were \$9,200,969 representing a \$64,129 increase from the original budget estimate of \$9,136,840. The final budget reflected a 0.7 percent increase from the original budgeted amount. Most of this difference was due to the underestimate of public utility personal property tax. For the General Fund, the final budget basis expenditures were \$9,370,314, representing a \$176,289 increase from the original budgeted expenditures of \$9,194,025.

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017
(Unaudited)
(Continued)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2017, the District had \$14.96 million invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of \$8.35 million.

Table 4 shows fiscal year 2017 balances compared to fiscal year 2016.

Table 4
Capital Assets & Accumulated Depreciation

	Governmental Activities	
	2017	2016
Nondepreciable Capital Assets:		
Land	\$23,487	\$23,487
Depreciable Capital Assets:		
Land Improvements	454,438	409,897
Buildings and Improvements	11,034,605	11,003,459
Furniture, Fixtures and Equipment	1,686,595	1,644,536
Vehicles	1,284,526	1,284,526
Library Books and Textbooks	480,981	538,343
Total Capital Assets	<u>14,964,632</u>	<u>14,880,761</u>
Less Accumulated Depreciation:		
Land Improvements	328,126	322,396
Buildings and Improvements	5,475,212	5,238,301
Furniture, Fixtures and Equipment	1,323,434	1,273,857
Vehicles	875,720	825,210
Library Books and Textbooks	350,789	458,138
Total Accumulated Depreciation	<u>8,355,281</u>	<u>8,117,902</u>
Totals	<u>\$6,609,351</u>	<u>\$6,786,346</u>

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

Debt Administration

At June 30, 2017 the District had \$400,000 in bonds outstanding with \$95,000 due within one year. Table 5 summarizes bonds outstanding for fiscal year 2017 compared to fiscal year 2016.

Table 5
Outstanding Debt

Purpose	Governmental Activities	
	2017	2016
School Improvement Refunding Bonds	\$400,000	\$490,000
Total	<u>\$400,000</u>	<u>\$490,000</u>

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

EASTERN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017
(Unaudited)
(Continued)

Current Issues

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

House Bill 64 established the current biennium budget for fiscal years 2016 and 2017. This biennium budget formula kept many of the same formulas that are driven by a district's wealth in terms of property valuation and taxable income. House Bill 64 created the new core funding component Capacity Aid. This line item resulted in revenue growth of unrestricted intergovernmental revenue in the amount of \$950,580 in FY 2016 and \$1,140,183 in FY 2017.

State legislation and the economy of the state greatly impact the financial stability of the District. The property values within the district are low. One voted mill will only generate approximately \$89,000. HB 49 establishes the biennium budget for FY 2018 and FY 2019. This budget does not make significant changes in the formula used to calculate state intergovernmental revenue. The budget does place Capacity Aid within the calculations to determine guarantee funding. Our indexes in the formulas are changing based on our district's respective growth in property valuation and income as compared to the state average growth. It is anticipated the district will not receive any growth in intergovernmental revenue in FY 2018 and FY 2019.

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

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it received. If you have any questions about this report or need additional information contact Lisa Ritchie, Treasurer of Eastern Local School Board of Education, 50008 State Route 681, Reedsville, Ohio 45772.

This page intentionally left blank.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Net Position
June 30, 2017**

		<u>Governmental Activities</u>
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$	3,705,372
Cash and Cash Equivalents with Fiscal Agents		715,856
Materials and Supplies Inventory		26,887
Accounts Receivable		4,388
Intergovernmental Receivable		77,841
Prepaid Items		52,772
Taxes Receivable		2,043,707
Restricted Assets:		
Equity in Pooled Cash and Cash Equivalents		52,866
Non-Depreciable Capital Assets		23,487
Depreciable Capital Assets, net		6,585,864
Total Assets		<u>13,289,040</u>
 Deferred Outflow of Resources		
Deferred Charges on Refunding		20,127
Pension		2,404,699
Total Deferred Outflows of Resources		<u>2,424,826</u>
 Liabilities:		
Accounts Payable		30,544
Accrued Wages and Benefits		674,363
Intergovernmental Payable		217,839
Accrued Interest Payable		1,505
Claims Payable		180,499
Long-Term Liabilities:		
Due Within One Year		155,681
Due in More Than One Year		498,809
Net Pension Liability		12,953,547
Total Liabilities		<u>14,712,787</u>
 Deferred Inflows of Resources:		
Property Taxes Receivable		507,192
Pension		210,683
Total Deferred Inflows of Resources		<u>717,875</u>
 Net Position:		
Net Investment in Capital Assets		6,167,267
Restricted for:		
Debt Service		690,779
Capital		7,538
Other Purposes		889,481
Unrestricted		(7,471,861)
Total Net Position	\$	<u><u>283,204</u></u>

See Accompanying Notes to the Basic Financial Statements

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2017**

	Program Revenues			Net(Expense) Revenue and Changes in Net Position
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental Activities:				
Instruction:				
Regular	\$ 4,929,170	\$ 840,022	\$ 48,239	\$ (4,040,909)
Special	993,295	0	760,834	(232,461)
Student Intervention Services	4,411	0	0	(4,411)
Support Services:				
Pupils	597,994	0	0	(597,994)
Instructional Staff	68,421	0	0	(68,421)
Board of Education	35,632	0	0	(35,632)
Administration	639,952	0	0	(639,952)
Fiscal	321,591	0	0	(321,591)
Operation and Maintenance of Plant	963,425	0	0	(963,425)
Pupil Transportation	538,956	0	0	(538,956)
Central	95,785	0	0	(95,785)
Operation of Non-Instructional Services	383,137	118,332	247,345	(17,460)
Extracurricular Activities	243,184	70,766	8,133	(164,285)
Interest and Fiscal Charges	23,372	0	0	(23,372)
Totals	\$ 9,838,325	\$ 1,029,120	\$ 1,064,551	(7,744,654)
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				1,709,146
Property Taxes, Levied for Debt Service				120,613
Property Taxes, Levied for Other				28,486
Grants and Entitlements not Restricted to Specific Programs				6,313,806
Gifts and Donations				9,013
Investment Earnings				23,008
Miscellaneous				10,609
Total General Revenues				8,214,681
Change in Net Position				470,027
Net Position Beginning of Year				(186,823)
Net Position End of Year				\$ 283,204

See Accompanying Notes to the Basic Financial Statements

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2017**

	General Fund	Bond Retirement Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 2,054,006	\$ 595,873	\$ 961,355	\$ 3,611,234
Materials and Supplies Inventory	24,988	0	1,899	26,887
Accounts Receivable	4,388	0	0	4,388
Interfund Receivable	122	0	0	122
Intergovernmental Receivable	0	0	77,841	77,841
Prepaid Items	52,772	0	0	52,772
Taxes Receivable	1,917,129	94,510	32,068	2,043,707
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	52,866	0	0	52,866
Total Assets	\$ 4,106,271	\$ 690,383	\$ 1,073,163	\$ 5,869,817
Liabilities				
Current Liabilities:				
Accounts Payable	\$ 30,310	\$ 0	\$ 234	\$ 30,544
Accrued Wages and Benefits	606,010	0	68,353	674,363
Interfund Payable	0	0	122	122
Intergovernmental Payable	195,485	0	22,354	217,839
Total Liabilities	831,805	0	91,063	922,868
Deferred Inflow of Resources				
Property Levied for the Next Fiscal Year	498,407		8,785	507,192
Delinquent Property Tax Not Available	409,553	36,860	6,280	452,693
Deferred Intergovernmental Revenue	0	0	20,511	20,511
Total Deferred Inflows of Resources	907,960	36,860	35,576	980,396
Total Liabilities and Deferred Inflows of Resources	1,739,765	36,860	126,639	1,903,264
Fund Balances				
Nonspendable	77,760	0	1,899	79,659
Restricted	52,866	653,523	559,445	1,265,834
Committed	0	0	388,820	388,820
Assigned	1,299,579	0	0	1,299,579
Unassigned	936,301	0	(3,640)	932,661
Total Fund Balances	2,366,506	653,523	946,524	3,966,553
Total Liabilities and Fund Balances	\$ 4,106,271	\$ 690,383	\$ 1,073,163	\$ 5,869,817

See Accompanying Notes to the Basic Financial Statements

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities
June 30, 2017**

Total Governmental Fund Balances	\$	3,966,553
<p>Amounts reported for governmental activities on the statement of Net Position are different because:</p>		
<p>The net pension liability is not due in the current period therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:</p>		
Deferred Outflows - Pension	2,404,699	
Deferred Inflows - Pension	(210,683)	
Net Pension Liability	(12,953,547)	(10,759,531)
<p>Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.</p>		
		6,609,351
<p>Some of the District's receivables will be collected after fiscal year-end, but are not available soon enough to pay current period's expenditures and therefore are deferred in the funds. These receivables consist of:</p>		
Property taxes	452,693	
Intergovernmental revenue	20,511	
Total	473,204	473,204
<p>Unamortized issuance costs represent deferred outflows which do not provide current financial resources and are therefore not reported in the funds.</p>		
		20,127
<p>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.</p>		
		629,495
<p>Some liabilities are not due and payable in the current and therefore are not reported in the funds. These liabilities consist of:</p>		
Accrued interest on bonds	(1,505)	
Refunding bonds	(431,545)	
Capital Leases	(13,560)	
Compensated Absences	(209,385)	
	(655,995)	(655,995)
Net Position of Governmental Activities	\$	283,204

See Accompanying Notes to the Basic Financial Statements

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2017**

	<u>General Fund</u>	<u>Bond Retirement Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Property and Other Local Taxes	\$ 1,676,367	\$ 117,663	\$ 28,187	\$ 1,822,217
Intergovernmental	6,808,768	21,274	680,519	7,510,561
Interest	23,008	0	5,330	28,338
Tuition and Fees	811,031	0	0	811,031
Rent	28,991	0	0	28,991
Extracurricular Activities	4,455	0	66,311	70,766
Gifts and Donations	9,013	0	12,258	21,271
Customer Sales and Services	0	0	118,332	118,332
Miscellaneous	10,609	0	650	11,259
Total Revenues	<u>9,372,242</u>	<u>138,937</u>	<u>911,587</u>	<u>10,422,766</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	4,588,484	0	60,522	4,649,006
Special	597,008	0	341,177	938,185
Student Intervention Services	4,606	0	0	4,606
Other		0	0	0
Support Services:				
Pupils	612,433	0	0	612,433
Instructional Staff	106,783	0	0	106,783
Board of Education	35,900	0	0	35,900
Administration	612,277	0	0	612,277
Fiscal	301,424	5,268	943	307,635
Operation and Maintenance of Plant	840,610	0	19,998	860,608
Pupil Transportation	470,048	0	0	470,048
Central	96,012	0	0	96,012
Operation of Non-Instructional Services	6,821	0	359,799	366,620
Extracurricular Activities	174,710	0	72,633	247,343
Capital Outlay	112,536	0	0	112,536
Debt Service:				
Principal	4,714	90,000	0	94,714
Interest	962	22,806	0	23,768
Total Expenditures	<u>8,565,328</u>	<u>118,074</u>	<u>855,072</u>	<u>9,538,474</u>
Excess of Revenues Over (Under) Expenditures	<u>806,914</u>	<u>20,863</u>	<u>56,515</u>	<u>884,292</u>
Net Change in Fund Balances	806,914	20,863	56,515	884,292
Fund Balance at Beginning of Year	1,559,592	632,660	890,009	3,082,261
Fund Balance (Deficit) at End of Year	<u>\$ 2,366,506</u>	<u>\$ 653,523</u>	<u>\$ 946,524</u>	<u>\$ 3,966,553</u>

See Accompanying Notes to the Basic Financial Statements

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement Activities
For the Fiscal Year Ended June 30, 2017**

Net Change in Fund Balances - Total Governmental Funds	\$	884,292
Amounts reported for governmental activities on the statement of activities are different because of the following:		
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		644,999
Except for amounts reported as deferred inflows/outflows, changes in the net position liability are reported as pension expense in the statement of activities.		(1,014,982)
Governmental funds report capital outlay as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlay in the current year.		
Capital Outlay - Depreciable Capital Assets	222,429	
Depreciation	<u>(382,318)</u>	(159,889)
The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of Net Position and is offset against the proceeds from the sale of capital assets resulting in a gain (loss) on disposal of capital assets on the statement of activities.		
Gain (Loss) on Disposal of Capital Assets		(17,106)
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:		
Intergovernmental	(132,204)	
Interest	(5,330)	
Gifts and donations	(12,258)	
Miscellaneous	(650)	
Delinquent Property Taxes	<u>36,028</u>	(114,414)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.		90,000
Payments on capital lease		4,714
Internal Service Fund is used by management to charge the costs of insurance to individual funds not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among governmental activities.		170,967
In the statement of activities, interest accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		396
Some expenses reported on the statement of activities, such as compensated absences do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:		
Compensated Absences	<u>(18,950)</u>	<u>(18,950)</u>
Change in Net Position of Governmental Activities	\$	<u><u>470,027</u></u>

See Accompanying Notes to the Basic Financial Statements

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Property Taxes	\$ 1,480,000	\$ 1,530,000	\$ 1,527,116	\$ (2,884)
Intergovernmental	6,867,000	6,809,244	6,808,768	(476)
Interest	5,500	15,500	23,008	7,508
Tuition and Fees	723,340	801,340	809,951	8,611
Rent	28,000	28,000	24,949	(3,051)
Gifts and Donations	2,000	4,000	4,278	278
Miscellaneous	1,000	1,000	1,162	162
Total Revenues	<u>9,106,840</u>	<u>9,189,084</u>	<u>9,199,232</u>	<u>10,148</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,862,425	4,949,830	4,651,677	298,153
Special	678,793	651,686	618,968	32,718
Student Intervention Services	24,474	24,341	6,106	18,235
Support services:				
Pupils	634,361	655,052	604,127	50,925
Instructional Staff	140,360	124,397	117,804	6,593
Board of Education	38,276	38,844	35,198	3,646
Administration	584,074	636,401	624,533	11,868
Fiscal	306,796	316,897	304,159	12,738
Operation and Maintenance of Plant	933,693	933,449	905,876	27,573
Pupil Transportation	540,520	628,150	602,155	25,995
Central	100,305	104,059	95,056	9,003
Operation of Non-Instructional Services	7,000	7,000	6,821	179
Extracurricular activities	170,129	170,994	156,909	14,085
Capital Outlay	172,819	129,214	145,701	(16,487)
Total Expenditures	<u>9,194,025</u>	<u>9,370,314</u>	<u>8,875,090</u>	<u>495,224</u>
Excess of Revenues Over (Under) Expenditures	<u>(87,185)</u>	<u>(181,230)</u>	<u>324,142</u>	<u>505,372</u>
Other Financing Sources (Uses):				
Transfers In	0	0	0	0
Advances In	0	1,885	1,885	0
Refund of Prior Year Expenditures	30,000	10,000	9,447	(553)
Transfers Out	0	0	(807)	(807)
Advances Out	0	0	(122)	(122)
Total Other Financing Sources (Uses)	<u>30,000</u>	<u>11,885</u>	<u>10,403</u>	<u>(1,482)</u>
Net Change in Fund Balance	(57,185)	(169,345)	334,545	503,890
Fund Balance at Beginning of Year	1,282,910	1,282,910	1,282,910	0
Prior Year Encumbrances Appropriated	249,058	249,058	249,058	0
Fund Balance at end of Year	<u>\$ 1,474,783</u>	<u>\$ 1,362,623</u>	<u>\$ 1,866,513</u>	<u>\$ 503,890</u>

See Accompanying Notes to Basic Financial Statements

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Fund Net Position
Internal Service Fund
June 30, 2017**

	<u>Internal Service</u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 94,138
Cash and Cash Equivalents with Fiscal Agents	<u>715,856</u>
Total Current Assets	<u>809,994</u>
LIABILITIES:	
Current Liabilities:	
Claims Payable	<u>180,499</u>
Net Position:	
Unrestricted	<u>629,495</u>
Total Net Position	<u>\$ 629,495</u>

See Accompanying Notes to Basic Financial Statements

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Revenues, Expenses and Changes in Fund Net Position
Internal Service Fund
June 30, 2017**

OPERATING REVENUES:	
Charges for Services	\$ 1,466,111
Total Operating Revenues	<u>1,466,111</u>
OPERATING EXPENSES:	
Claims	1,287,262
Other	<u>7,882</u>
Total Operating Expenses	<u>1,295,144</u>
Net Change in Net Position	170,967
Net Position (Deficit) at Beginning of Year	458,528
Net Position (Deficit) at End of Year	<u>\$ 629,495</u>

See Accompanying Notes to Basic Financial Statements

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Cash Flows
Internal Service Fund
June 30, 2017**

	Internal Service
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Charges for Services	\$ 1,466,111
Payments for Other Operating Expenses	(7,882)
Payments for Claims	<u>(1,235,155)</u>
Net Cash from Operating Activities	<u>223,074</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 223,074
Cash and Cash Equivalents at Beginning of Year	<u>586,920</u>
Cash and Cash Equivalents at End of Year	\$ <u><u>809,994</u></u>
 Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities:	
Operating Income (Loss)	\$ 170,967
 Adjustments to Reconcile Operating Income to Net Cash from Operating Activities:	
Increase (Decrease) in Liabilities:	
Claims Payable	<u>52,107</u>
Net Cash Provided by Operating Activities	\$ <u><u>223,074</u></u>

See Accompanying Notes to Basic Financial Statements

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2017**

	<u>Agency Fund</u>
Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ <u>68,061</u>
Liabilities	
Due to Students	\$ <u>68,061</u>

See Accompanying Notes to the Basic Financial Statements

This page intentionally left blank.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Description of the School District

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

The District was established in 1956. The District serves an area of approximately 115 square miles. It is located in Meigs County, and includes the communities of Reedsville, Tappers Plains and Chester, and the Townships of Orange, Olive, Chester and a portion of Bedford. It is staffed by 41 non-certificated employees, 60 certificated full-time teaching personnel and 5 administrative employees who provide services to 802 students and other community members. The District currently operates 2 instructional buildings, 1 administrative building and 1 garage.

Reporting Entity:

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

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

The District is associated with six organizations, three of which are defined as jointly governed organizations and three as insurance purchasing pools. These organizations are the Jefferson Health Plan, the Metropolitan Educational Technology Association, the Ohio Coalition of Equity and Adequacy of School Funding, the Coalition of Rural and Appalachian Schools, the Ohio School Boards Association Worker's Compensation Group Rating Plan, and the Schools of Ohio Risk Sharing Authority. These organizations are presented in Notes 18 and 19 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The District has no business-type activities.

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following are the District's major governmental funds:

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

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

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

Proprietary Fund

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

Fiduciary Funds

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

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Inflows of Resources and Deferred Outflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 10.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2017, 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 District, unavailable revenue includes delinquent property taxes, intergovernmental grants, and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 10).

Pensions

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Cash and Cash Equivalents

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

During the fiscal year 2017, the District's investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for non-participating investment contracts, investments are reported at fair value which is based on quoted market prices. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2017.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2017 amounted to \$23,008 which includes \$8,793 assigned from other District funds.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

F. Inventory

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

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

G. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors or laws of other governments or imposed by enabling legislation. Restricted assets in the General Fund include amounts required by statute to be set-aside by the District for budget stabilization. See Note 16 for additional information regarding set-asides.

H. Capital Assets

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

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

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	20 – 50 years
Furniture, Fixtures and Equipment	5 - 20 years
Vehicles	8 years
Library Books and Textbooks	5 years

I. Interfund Balances

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

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the District has identified as probable of receiving payments in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal yearend, taking into consideration any limits specified in the District's termination policy. The District records a liability for accumulated unused sick leave for classified and certified employees and administrators who have at least 20 years of service with the District.

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

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

K. Accrued Liabilities and Long-Term Liabilities

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination of benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Long-term bonds are recognized as a liability on the fund financial statements when due.

L. Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

M. Fund Balance

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

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

N. Operating Revenues and Expenses

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

O. Interfund Transactions

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

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. For the fiscal year 2017, the District reported no extraordinary or special items.

Q. Estimates

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

R. Budgetary Process

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2017.

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

NOTE 3 - ACCOUNTABILITY

The following funds had deficit fund balances as of June 30, 2017:

Nonmajor Special Revenue Funds:	
Title VI-B	\$2,785
Title I	463
Title II-A	295
Misc Federal	97

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

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the District is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described earlier is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual (Budget Basis) is presented for the General Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and modified accrual GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance.
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

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

Net Change in Fund Balance	General
GAAP Basis	\$806,914
<u>Increase (Decrease) Due To:</u>	
Revenue Accruals:	
Accrued FY 2016, Received In Cash FY 2017	860,022
Accrued FY 2017, Not Yet Received in Cash	(1,023,004)
Expenditure Accruals:	
Accrued FY 2016, Paid in Cash FY 2017	(837,026)
Accrued FY 2017, Not Yet Paid in Cash	763,492
Advances Net	1,763
Net Non General Fund Cash Activity	(904)
Encumbrances Outstanding at Year End (Budget Basis)	(236,712)
Budget Basis	\$334,545

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

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

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

At June 30, 2017, the carrying amount of all District deposits was \$1,049,070. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2017, \$876,060 of the District's bank balance of \$1,126,060 was exposed to custodial risk as discussed above while \$250,000 was covered by Federal Deposit Insurance. The \$876,060 exposed to custodial risk was collateralized with securities held by the District or its agency in the District's name.

Investments: As of June 30, 2017,6, the District had the following investments and maturities:

	Fair Value	6 Months or less
STAR Ohio	\$2,777,229	\$2,777,229
Total Investments	\$2,777,229	\$2,777,229

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

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

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

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2017 represents collections of calendar year 2016 taxes. Real property taxes received in calendar year 2017 were levied after April 1, 2016, on the assessed value listed as of January 1, 2016, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2017 were levied after April 1, 2016, on the assessed values as of December 31, 2015, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The District receives property taxes from Meigs County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2017 are available to finance fiscal year 2017 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents the delinquent taxes outstanding and real property, and public utility taxes which become measurable as of June 30, 2017. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The total amount available as an advance at June 30, 2017 was \$1,083,822 and is recognized as revenue. Of this total amount, \$1,009,169 was available to the General Fund, \$57,650 was available to the Bond Retirement Debt Service Fund, and \$17,003 was available to the Classroom Facilities Maintenance Nonmajor Special Revenue Fund.

Property taxes for which there is an enforceable legal claim as of June 30, 2017, but which were levied to finance fiscal year 2017 operations have been recorded as deferred inflows of resources on the Statement of Net Position and Governmental Fund Balance Sheet.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 6 - PROPERTY TAXES (Continued)

The assessed values upon which the fiscal year 2017 taxes were collected are:

	2016 Second- Half Collections		2017 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$70,672,010	85.26%	\$74,100,650	78.88%
Public Utility Personal	12,216,890	14.74%	19,842,410	21.12%
Total Assessed Value	<u>\$82,888,900</u>	<u>100.00%</u>	<u>\$93,943,060</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$20.00		\$20.00	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2017 consisted of property taxes, accounts (student fees), interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Activities</u>	
Nonmajor Special Revenue Funds:	
Rural & Low	\$1,363
Title II - A	6,148
Title I	28,784
Idea Part - B	41,546
Total Intergovernmental	<u>\$77,841</u>

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 8 - CAPITAL ASSETS

Capital asset governmental activity for the fiscal year ended June 30, 2017 was as follows:

	<u>Balance at July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2017</u>
Capital Assets:				
Nondepreciable Capital Assets				
Land	\$23,487	\$0	\$0	\$23,487
Total Nondepreciable Capital Assets	<u>23,487</u>	<u>0</u>	<u>0</u>	<u>23,487</u>
Depreciable Capital Assets				
Land Improvements	409,897	54,380	9,839	454,438
Buildings and Improvements	11,003,459	31,146	0	11,034,605
Furniture, Fixtures and Equipment	1,644,536	44,272	2,213	1,686,595
Vehicles	1,284,526	0	0	1,284,526
Library Books and Textbooks	538,343	92,631	149,993	480,981
Total Depreciable Capital Assets	<u>14,880,761</u>	<u>222,429</u>	<u>162,045</u>	<u>14,941,145</u>
Less Accumulated Depreciation				
Land Improvements	322,396	14,585	8,855	328,126
Buildings and Improvements	5,238,301	236,911	0	5,475,212
Furniture, Fixtures and Equipment	1,273,857	52,668	1,091	1,325,434
Vehicles	825,210	50,510	0	875,720
Library Books and Textbooks	458,138	27,644	134,993	350,789
Total Accumulated Depreciation	<u>8,117,902</u>	<u>382,318</u>	<u>144,939</u>	<u>8,355,281</u>
Depreciable Capital Assets, Net	<u>6,762,859</u>	<u>(159,889)</u>	<u>17,106</u>	<u>6,585,864</u>
Total Capital Assets, Net	<u>\$6,786,346</u>	<u>(\$159,889)</u>	<u>\$17,106</u>	<u>\$6,609,351</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$204,253
Special	41,967
Support Services:	
Pupils	5,754
Administration	984
Fiscal	537
Operation and Maintenance of Plant	35,722
Pupil Transportation	54,321
Operation of Non-Instructional Services:	8,698
Extracurricular	30,082
Total Depreciation Expense	<u>\$382,318</u>

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District participates in the Schools of Ohio Risk Sharing Authority, Inc. for insurance coverage. Coverages provided are as follows:

Property Insurance	\$31,843,636
Equipment Breakdown	300,000,000
Automobile Liability	15,000,000
Wrongful Acts	15,000,000
Crime Coverage	100,000
General Liability:	
Per Occurrence	15,000,000
Total per Year	17,000,000

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

For fiscal year 2017, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool (Note 19). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm Gates McDonald & Co. provides administrative, cost control and actuarial services to the Plan.

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

The claims liability of \$180,499 reported at June 30, 2017 is based on an estimate provided by the third-party administrators and the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past fiscal year are as follows:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2016	\$123,239	\$924,471	\$919,318	\$128,392
2017	\$128,392	\$1,287,262	\$1,235,155	\$180,499

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 10 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14.00 percent. 0.0 percent was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$170,411 for fiscal year 2017. Of this amount \$29,744 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 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 year of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2016, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS Ohio 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 Ohio bearing the risk of investment gain or loss on the account. STRS Ohio has therefore included all three plan options in the GASB 68 schedules of employer allocations and pension amounts by employer.

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The statutory member contribution rate was increased one percent to 14 percent on July 1, 2016. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The District's contractually required contribution to STRS was \$474,588 for fiscal year 2017. Of this amount \$84,436 is reported as an intergovernmental payable.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

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

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial evaluation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.03619800%	0.03146130%
Proportion of the Net Pension Liability Current Measurement Date	<u>0.03517230%</u>	<u>0.03100784%</u>
Change in Proportionate Share	-0.00102570%	-0.00045346%

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$2,574,288	\$10,379,259	\$12,953,547
Pension Expense	\$249,848	\$786,853	\$1,036,701

At June 30, 2017, the District reported outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$34,721	\$419,372	\$454,093
Changes of assumptions	171,848	0	171,848
Net difference between projected and actual earnings on pension plan investments	212,341	861,757	1,074,098
District contributions subsequent to the measurement date	<u>170,411</u>	<u>534,249</u>	<u>704,660</u>
Total Deferred Outflows of Resources	<u><u>\$589,321</u></u>	<u><u>\$1,815,378</u></u>	<u><u>\$2,404,699</u></u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$0	\$0	\$0
Difference between District contributions and proportionate share of contributions	<u>88,492</u>	<u>122,191</u>	<u>210,683</u>
Total Deferred Inflows of Resources	<u><u>\$88,492</u></u>	<u><u>\$122,191</u></u>	<u><u>\$210,683</u></u>

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

\$704,660 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2018	\$71,941	\$171,710	\$243,651
2019	71,789	171,710	243,499
2020	125,649	502,392	628,041
2021	61,040	313,127	374,167
Total	\$330,419	\$1,158,939	\$1,489,358

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.5 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

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

The target allocation and best estimates of arithmetic real rates of return for each major 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 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.5 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 (6.5 percent), or one percentage point higher (8.5 percent) than the current rate.

	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
School District's proportionate share of the net pension liability	\$3,408,197	\$2,574,288	\$1,876,271

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
 Total	 <u>100.00 %</u>	

10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50% and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Net Pension Liability as of June 30, 2016, calculated using the current period discount rate assumption of 7.75 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease █ (6.75%)	Current Discount Rate █ (7.75%)	1% Increase █ (8.75%)
District's proportionate share of the net pension liability	\$13,793,191	\$10,379,259	\$7,499,405

Changes between Measurement Date and Report Date

In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial evaluation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75% to 7.45%. In April 2017, the STRS Board voted to suspend cost of living arrangements granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to School District's NPL is expected to be significant. "

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2017, three members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. 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 2017, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2017, this amount was \$23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the District's surcharge obligation was \$18,372.

The School District's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$0, \$0, and \$12,190 respectively. The full amount has been contributed for all three fiscal years.

B. State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2017, June 30, 2016 and June 30, 2015, STRS Ohio 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, 2017, 2016, and 2015 were \$0, \$0, and \$0 respectively. The full amount has been contributed for all three fiscal years.

NOTE 12 - EMPLOYEE BENEFITS

Compensated Absences

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

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 12 - EMPLOYEE BENEFITS (Continued)

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

Health, Prescription Drug, and Life Insurance

The District participates in the Jefferson Health Plan. The district contributes premiums to the consortium for the purchase of health insurance benefits. The individual stop-loss amount is \$50,000 per year. The Program purchases additional stop loss insurance for the consortium. Three plans are offered to district employees. Plan A is a traditional preferred provider plan and employees contribute 10% of the cost of the premium which is \$892.88/\$1,913.31 single/family coverage. Plan B is a HDHP with an HSA the board contributes \$100/\$200 to the HSA for certified employees and \$800/\$1,600 for classified employees to cover the high deductible and 100% of the premium which is \$739.30/\$1,715.76 single/family. Plan C is a HDHP with an HSA the board contributes \$100/\$200 to the HSA for certified employees and \$800/\$1,600 for classified employees to cover the high deductible and 100% of the premium which is to cover the high deductible and 100% of the premium which is \$803,60/\$1,864.96 single/family.

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

NOTE 13 - LONG-TERM LIABILITIES

The changes in the District's long-term liabilities during fiscal year 2017 were as follows:

	Principal Outstanding At July 1, 2016	Additions	Deductions	Principal Outstanding At June 30, 2017	Amount Due Within One Year
Governmental Activities:					
2006 Refunding Bonds 5.125%	\$490,000	\$0	\$90,000	\$400,000	\$95,000
Premium on Bonds Issued	35,908	0	4,363	31,545	4,363
Capital Leases	18,274	0	4,714	13,560	5,003
Net Pension Liability	10,760,484	2,193,063	0	12,953,547	0
Compensated Absences	190,435	53,751	34,801	209,385	51,315
Total Governmental Activities Long-Term Obligations	<u>\$11,495,101</u>	<u>\$2,246,814</u>	<u>\$133,878</u>	<u>\$13,608,037</u>	<u>\$155,681</u>

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 13 - LONG-TERM LIABILITIES (Continued)

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

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

The District's overall legal debt margin was \$8,054,875 with an unvoted debt margin of \$93,943 at June 30, 2017.

The annual requirements to retire the general obligation renovation bonds outstanding at June 30, 2017 are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Refunding Bonds</u>	<u>Interest</u>	<u>Total</u>
2018	\$95,000	\$18,065	\$113,065
2019	95,000	13,197	108,197
2020	100,000	8,200	108,200
2021	110,000	2,819	112,819
Total	<u>\$400,000</u>	<u>\$42,281</u>	<u>\$442,281</u>

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 14 – FUND BALANCES

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

<u>Fund Balance</u>	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:				
Prepaid Items	\$52,772	\$0	\$0	\$52,772
Inventory	24,988	0	1,899	26,887
Restricted for:				
Set Asides	52,866	0	0	52,866
Special Revenues:				
Athletics	0	0	38,340	38,340
Facilities Maintenance	0	0	476,627	476,627
Food Service	0	0	36,058	36,058
Local Grants	0	0	882	882
Debt Service	0	653,523	0	653,523
Capital Projects	0	0	7,538	7,538
Committed:				
Eagle Express	0	0	2,740	2,740
Education Foundation	0	0	386,080	386,080
Assigned:				
Uniform School Supply	18	0	0	18
Community Education	7	0	0	7
Public School Support	3,614	0	0	3,614
Encumbrances	207,029	0	0	207,029
Appropriations	1,088,911	0	0	1,088,911
Unassigned	936,301	0	(3,640)	932,661
Total Fund Balance	\$2,366,506	\$653,523	\$946,524	\$3,966,553

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 15 - INTERFUND ACTIVITY

As of June 30, 2017, receivables and payables that resulted from various interfund transactions were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$122	\$0
Nonmajor Special Revenue Funds:		
Title II-B Grant Fund	0	122
Total Nonmajor Special Revenue	<u>0</u>	<u>122</u>
Total	<u>\$122</u>	<u>\$122</u>

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

NOTE 16 - STATUTORY SET-ASIDES

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

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

	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-Aside Balance as of July 1, 2016	\$0	\$52,866
Current Year Set-Aside Requirement	140,825	0
Offset Credits	(29,281)	0
Qualifying Disbursements	(111,544)	0
Total	<u>\$0</u>	<u>\$52,866</u>
Set-aside Balance as of June 30, 2017	<u>\$0</u>	<u>\$52,866</u>
Total Restricted Assets		\$52,866

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

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 17 – ENCUMBRANCE COMMITMENTS

At June 30, 2017, the District had encumbrance commitments in the General Fund in the amount of \$236,712.

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Technology Association (META)

The School District is a participant in META Solutions which is a computer consortium that was the result of a merger between Southeastern Ohio Voluntary Educational Cooperative (SEOVEC) and the Metropolitan Educational Council (MEC). META Solutions develops implements and supports the technology and instructional needs of schools in a cost-effective manner. META Solutions provides instructional, core, technology and purchasing services for its member districts. The Board of Directors consists of the Superintendents from eight of the member districts. The District paid \$25,164 to META and \$34,480 to SEOVEC, respectively for the fiscal year. Financial information can be obtained from Scott Armstrong, who serves as Chief Financial Officer, 100 Executive Drive, Marion, Ohio 43302.

Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Council provides various in service for school district administrative personnel; gathers of data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the District and the District does not maintain an equity interest in or financial responsibility for the Council. The District paid \$325 for membership in fiscal year 2017.

Ohio Coalition of Equity and Adequacy of School Funding

The Ohio Coalition of Equity and Adequacy of School Funding is organized as a council of governments pursuant to Chapter 167 of the Ohio Revised Code. The Coalition was organized in 1990 to challenge the constitutionally of the Ohio school funding system. The Coalition is governed by a Steering Committee of 90 school district representatives. Though most of the members are superintendents, some treasurers, board members, and administrators also serve. Several persons serve as ex officio members. The membership of the coalition includes over 500 school districts throughout the State of Ohio. The Committee exercises total control over budgeting, appropriating, contracting, and the designation of management. Member school districts and joint vocational schools pay dues of \$.05 per pupil. School districts and joint vocational schools may also pay supplemental dues in the amount of \$.50 per pupil for K-12 districts and educational service centers pay dues of \$.05 per pupil. The Coalition is not dependent on the continued participation of the School District and the School District does not maintain an equity interest or financial responsibility for the Coalition. During fiscal year 2017, the School District paid \$406 to the Coalition. To obtain financial information write to Ohio Coalition of Equity and Adequacy of School Funding at 100 South Third Street, Columbus, Ohio 43215.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 19 - INSURANCE PURCHASING POOL

Jefferson Health Plan

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

Ohio School Boards Association Worker's Compensation Group Rating Plan

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

Schools of Ohio Risk Sharing Authority

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

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

NOTE 20 - CONTINGENCIES

Grants

The District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2017.

School Foundation

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2016, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2017 Foundation funding for the school district; therefore, the financial statement impact is not determinable at this time. ODE and management believe this may result in either a receivable to or a liability of the District.

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

NOTE 21 – CAPITAL LEASES

In 2015, the District has entered into lease agreements for copiers. These lease obligations meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the fund financial statements. Principal payments in fiscal year 2017 totaled \$4,714 in the governmental funds. The equipment has been capitalized in the amount of \$24,490, the present value of the minimum lease payments at the inception of the lease.

The following is a schedule of the future minimum lease payments and the present value of the minimum lease payments as of June 30, 2017:

Fiscal Year Ending June 30,	General Long-Term Obligations
2018	\$5,676
2019	5,676
2020	3,311
Total Future Minimum Lease Payments	14,663
Less: Amount Representing Interest	(1,103)
Present Value of Future Minimum Lease Payments	<u>\$13,560</u>

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

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

	<u>2017</u>		<u>2016</u>		<u>2015</u>		<u>2014</u>
District's proportion of the net pension liability	0.035172%		0.036198%		0.036540%		0.036540%
District's proportionate share of the net pension liability	\$ 2,574,288	\$	2,065,493	\$	1,849,269	\$	2,172,917
District's covered-employee payroll	\$ 798,029	\$	1,127,853	\$	1,293,511	\$	1,247,176
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	322.58%		183.13%		142.97%		174.23%
Plan fiduciary net position as a percentage of the total pension liability	62.98%		69.16%		71.70%		65.52%

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

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.03100784%	0.03146133%	0.03129540%	0.03129540%
District's proportionate share of the net pension liability	\$ 10,379,259	\$ 8,694,991	\$ 7,612,127	\$ 9,067,513
District's covered-employee payroll	\$ 3,569,907	\$ 3,197,529	\$ 3,219,008	\$ 3,587,100
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	290.74%	271.93%	236.47%	252.78%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	72.10%	74.70%	69.30%

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

EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 170,411	\$ 111,724	\$ 148,651	\$ 169,450	\$ 163,380	\$ 160,799	\$ 162,413	\$ 160,001	\$ 84,646	\$ 110,690
Contributions in relation to the contractually required contribution	(170,411)	(111,724)	(148,651)	(169,450)	(163,380)	(160,799)	(162,413)	(160,001)	(84,646)	(110,690)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 1,217,221	\$ 798,029	\$ 1,127,853	\$ 1,293,511	\$ 1,247,176	\$ 1,266,134	\$ 1,375,216	\$ 1,251,964	\$ 860,224	\$ 1,127,189
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.18%	13.10%	13.10%	12.70%	11.81%	12.78%	9.84%	9.82%

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually required contribution	\$ 474,588	\$ 499,787	\$ 447,654	\$ 418,471	\$ 466,323	\$ 465,976	\$ 479,919	\$ 468,943	\$ 430,382	\$ 404,954
Contributions in relation to the contractually required contribution	<u>(474,588)</u>	<u>(499,787)</u>	<u>(447,654)</u>	<u>(418,471)</u>	<u>(466,323)</u>	<u>(465,976)</u>	<u>(479,919)</u>	<u>(468,943)</u>	<u>(430,382)</u>	<u>(404,954)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 3,389,914	\$ 3,569,907	\$ 3,197,529	\$ 3,219,008	\$ 3,587,100	\$ 3,584,431	\$ 3,691,685	\$ 3,607,254	\$ 3,310,631	\$ 3,115,031
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

Changes in Assumptions – SERS

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

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

Amounts reported for fiscal year 2017 use mortality assumptions with mortality rates that are based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Amounts reported for fiscal year 2016 and prior, use mortality assumptions that are based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

This page intentionally left blank.



Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Eastern Local School District, Meigs County, Ohio (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 8, 2018.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. We consider Finding 2017-001 described in the accompanying Schedule of Findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Finding 2017-002 described in the accompanying Schedule of Findings to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2017-001.

District's Response to Findings

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

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

February 8, 2018

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2017**

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

FINDING NUMBER 2017-001

Noncompliance/Material Weakness

Ohio Admin. Code § 117-2-02(A) requires public offices to maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements required by § 117-2-03 of the Ohio Admin. Code.

As a result of the audit procedures performed, the following errors were noted in the financial statements that required adjustment or reclassification:

- Net Investments in Capital Assets was understated and Unrestricted Net Position was overstated in the amount of \$827,372.
- Deferred Inflow of Property Taxes Levied for the Next Fiscal Year in the Bond Retirement Fund was understated and Property Taxes revenue was overstated in the amount of \$33,206.
- Assigned fund balance in the General Fund was understated and Unassigned fund balance was overstated in the amount of \$1,033,169.
- Charges for Services was overstated in the Internal Service Fund in the amount of \$349,239, Claims Expense was overstated in the amount of \$250,967 and Other Expense was overstated in the amount of \$98,272.
- Additional errors were noted in the Net Pension Liability calculations which are noted in Finding Number 2017-002.

The financial statements and related notes to the financial statements were adjusted for the above noted items.

The District Treasurer should review the IPA workpapers, journal entries, financial statements, and notes to the financial statements for reasonableness prior to filing of the annual financial report.

Official's Response: IPA did not file notes and statements in a timely fashion to allow for adequate review. The district acknowledges it is our responsibility to review the work of the IPA. The district will select a new IPA firm to prepare more competent and timely notes and financial statements for fiscal year 2018.

FINDING NUMBER 2017-002

Significant Deficiency

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

**EASTERN LOCAL SCHOOL DISTRICT
MEIGS COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2017
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
--

FINDING NUMBER 2017-002 (Continued)

Significant Deficiency (Continued)

The School District included the required information in the June 30, 2017 financial statements as required. However, the following errors in the calculations of the Net Pension Liability, Deferred Outflows, Deferred Inflows, and Pension Expense were noted:

- Errors in the IPA calculations resulted in an understatement of Deferred Outflows in the amount of \$351,884.
- Errors in the IPA calculations resulted in an overstatement of Deferred Inflows in the amount of \$67,102.
- Errors in the IPA calculations resulted in an overstatement of Pension Expense in the amount of \$397,237.

The financial statements and related notes to the financial statements were adjusted for the above noted items.

In addition, the Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to Statement Activities had errors in the line "Except for amounts reported as deferred inflows/outflows, changes in the net position liability are reported as pension expense in the statement of activities."

This amount did not agree to the notes to the financial statements by \$439,890 prior to the above noted adjustments. After the above adjustments were made, as well as making required changes to the related notes to the financial statements, the Reconciliation was adjusted to correct the above line item. However, when using corrected pension amounts, the Reconciliation did not reconcile by \$21,719. This indicates additional unidentified errors exist in the financial statements. As such, the contractually required contributions on the reconciliation are still overstated by \$21,719.

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

Official's Response: The district relies on the expertise of the conversion IPA to calculate this liability and note. The Treasurer will research GASB 68 to better understand the calculation and requirements. IPA did not file notes and statements in a timely fashion to allow for adequate review. The district acknowledges it is our responsibility to review the work of the IPA. The district will select a new IPA firms to prepare more competent and timely notes and financial statements for fiscal year 2018.

Eastern Local School District

50008 State Route 681
Reedsville, Ohio 45772

Steve Ohlinger, Superintendent Lisa M. Ritchie, Treasurer
(740) 667-6079 (740) 667-3319
Fax (740) 667-3978



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2017

Finding Number	Finding Summary	Status	Additional Information
2016-001	Material Weakness for errors in Internal Service Fund	Corrected	Fund 024.9202 was created in March 2017.
2016-002	Material Weakness for errors in Taxes Receivable	Corrected	
2016-003	Significant Deficiency for errors in GASB 68	Not Corrected	This is the last year of the GAAP conversion vendor agreement. The district plans on selecting a different company to perform the conversion work and prepare the financials and notes.

This page intentionally left blank.



Dave Yost • Auditor of State

EASTERN LOCAL SCHOOL DISTRICT

MEIGS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 27, 2018**