



Dave Yost • Auditor of State



**EAST MUSKINGUM LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

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EAST MUSKINGUM LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

East Muskingum Local School District  
Muskingum County  
13505 John Glenn School Drive  
New Concord, Ohio 43762

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 East Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

Management is responsible for 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 School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the East Muskingum Local School District, Muskingum County, Ohio, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 21 to the financial statements, during the year ended June 30, 2015, the School District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

### **Other Matters**

#### *Required Supplementary Information*

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

#### *Supplementary and Other Information*

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

The Schedule of Federal Award Receipts and Expenditures (the Schedule) presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2016, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 15, 2016

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## East Muskingum Local School District, Ohio

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
Unaudited*

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The discussion and analysis of the East Muskingum Local School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year-ended June 30, 2015. The intent of this discussion and analysis is to look at the School District's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

Key financial highlights for the fiscal year 2015 are as follows:

- In total, net position of governmental activities decreased \$1,076,291.
- General revenues accounted for \$16,611,302 in revenue or 79 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$4,518,534 or 21 percent of total revenues of \$21,129,836.
- Capital assets decreased \$1,293,853 primarily due to current year depreciation expense which was offset by capital asset acquisitions.
- The School District had \$22,206,127 in expenses related to governmental activities; only \$4,518,534 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues (primarily taxes and intergovernmental revenues) in the amount of \$16,611,302 were not adequate to provide for these programs.

### **Using this Basic Financial Statements Report**

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of the School District, the General Fund and the Permanent Improvement Levy Capital Projects Fund are the only major funds for fiscal year 2015.

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

#### *Statement of Net Position and Statement of Activities*

While these documents contain the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during the 2014-2015 fiscal year?"

## East Muskingum Local School District, Ohio

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2015*

Unaudited

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The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and deferred outflows of resources and all liabilities and deferred inflows of resources using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report the School District's net position and changes in net position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors. In the Statement of Net Position and the Statement of Activities, all of the School District's activities are reported as governmental including instruction, support services, operation of non-instructional services, extracurricular activities, and debt service.

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

#### ***Fund Financial Statements***

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

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

***Proprietary Funds*** Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match. The School District's only fund of this type is the Medical-Dental Self-Insurance Internal Service Fund. However, the activity of this fund is combined with the Governmental Activities on the entity wide financial statements.

***Fiduciary Funds*** Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the School District's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

**East Muskingum Local School District, Ohio**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
Unaudited*

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 2015 compared to 2014.

**Table 1 - Net Position**

	Governmental Activities		
	2015	2014	Change
<b>Assets</b>			
Current and Other Assets	\$16,438,182	\$17,322,502	(\$884,320)
Capital Assets	22,068,463	23,362,316	(1,293,853)
Total Assets	<u>38,506,645</u>	<u>40,684,818</u>	<u>(2,178,173)</u>
<b>Deferred Outflows of Resources</b>			
Pension	1,743,226	1,414,101	329,125
<b>Liabilities</b>			
Current and Other Liabilities	2,734,342	2,799,366	(65,024)
Long-Term Liabilities:			
Due Within One Year	755,817	660,401	95,416
Due in More Than One Year			
Net Pension Liability	24,078,858	28,619,244	(4,540,386)
Other Amounts	4,698,420	5,396,184	(697,764)
Total Liabilities	<u>32,267,437</u>	<u>37,475,195</u>	<u>(5,207,758)</u>
<b>Deferred Inflows of Resources</b>			
Property Taxes not Levied to Finance Current			
Year Operations	4,585,912	4,512,294	73,618
Payment in Lieu of Taxes not Levied to Finance Current			
Year Operations	0	4,434	(4,434)
Pension	4,365,817	0	4,365,817
Total Deferred Inflows of Resources	<u>8,951,729</u>	<u>4,516,728</u>	<u>4,435,001</u>
<b>Net Position</b>			
Net Investment in Capital Assets	17,781,169	18,625,782	(844,613)
Restricted	3,004,381	3,359,620	(355,239)
Unrestricted (Deficit)	<u>(21,754,845)</u>	<u>(21,878,406)</u>	<u>123,561</u>
Total Net Position	<u><u>(\$969,295)</u></u>	<u><u>\$106,996</u></u>	<u><u>(\$1,076,291)</u></u>

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

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.

## East Muskingum Local School District, Ohio

### *Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2015*

Unaudited

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Under the new standards required by GASB 68, the net pension liability equals the School District's proportionate share of each plan's collective: 1. Present value of estimated future pension benefits attributable to active and inactive employees' past service. 2. Minus plan assets available to pay these benefits. GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" - that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State Statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan. Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State Statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the Statement of Net Position. In accordance with GASB 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows. As a result of implementing GASB 68, the School District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$27,312,139 to \$106,996.

Total assets decreased by \$2,178,173. Capital assets decreased \$1,293,853 due to current year depreciation expense which exceeded current year capital asset additions. Intergovernmental receivables decreased \$501,586 due to the School District receiving the remaining amount of the Straight A grant awarded to them in the prior fiscal year. Cash and cash equivalents also decreased in the amount of \$374,118 due to current year revenues not keeping pace with increased expenditures.

Current and Other liabilities decreased minimally by \$65,024, or 2 percent, as the timing of payrolls and payment of obligations have remained consistent. Long-term liabilities, excluding the pension liability, decreased \$602,348 mostly due to the retirement of bonds, long-term notes, and compensated absences.

Net position decreased \$1,076,291. Net Investment in Capital Assets decreased by \$844,613 which is due primarily to current year depreciation exceeding capital asset acquisitions as well as changes in long-term liabilities related to capital assets.

**East Muskingum Local School District, Ohio**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2015*

Unaudited

Table 2 shows the changes in net position for the fiscal year-ended June 30, 2015 and comparisons to fiscal year 2014:

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

	Governmental Activities		
	2015	2014	Change
<b>Revenues</b>			
Program Revenues			
Charges for Services	\$2,195,596	\$2,144,990	\$50,606
Operating Grants, Contributions and Interest	2,247,064	3,022,131	(775,067)
Capital Grants and Contributions	75,874	78,136	(2,262)
Total Program Revenues	<u>4,518,534</u>	<u>5,245,257</u>	<u>(726,723)</u>
General Revenues			
Property Taxes	7,096,765	7,281,464	(184,699)
Payment in Lieu of Taxes	4,246	4,434	(188)
Grants and Entitlements	9,283,394	9,218,780	64,614
Investment Earnings	60,573	57,695	2,878
Gain on Sale of Capital Assets	0	1,500	(1,500)
Miscellaneous	166,324	200,068	(33,744)
Total General Revenues	<u>16,611,302</u>	<u>16,763,941</u>	<u>(152,639)</u>
Total Revenues	<u>21,129,836</u>	<u>22,009,198</u>	<u>(879,362)</u>
<b>Program Expenses</b>			
Instruction			
Regular	9,578,458	9,524,425	54,033
Special	3,218,479	3,203,350	15,129
Vocational	184,920	221,835	(36,915)
Student Intervention Services	558,929	391,917	167,012
Support Services			
Pupils	441,638	470,230	(28,592)
Instructional Staff	657,164	559,543	97,621
Board of Education	37,958	41,403	(3,445)
Administration	2,061,389	2,140,302	(78,913)
Fiscal	492,010	613,587	(121,577)
Operation and Maintenance of Plant	1,901,599	1,952,364	(50,765)
Pupil Transportation	1,288,178	1,323,491	(35,313)
Central	128,094	202,186	(74,092)
Food Service Operations	1,072,894	1,064,469	8,425
Extracurricular Activities	444,445	460,341	(15,896)
Interest	139,972	150,046	(10,074)
Total Expenses	<u>22,206,127</u>	<u>22,319,489</u>	<u>(113,362)</u>
<i>Change in Net Position</i>	<u>(1,076,291)</u>	<u>(310,291)</u>	<u>(766,000)</u>
Net Position Beginning of Year	106,996	N/A	
Net Position End of Year	<u>(\$969,295)</u>	<u>\$106,996</u>	<u>(\$1,076,291)</u>

**East Muskingum Local School District, Ohio**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
Unaudited*

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The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$1,414,101 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$1,012,090. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$22,206,127
Pension expense under GASB 68	(1,012,090)
2015 contractually required contribution	<u>1,515,784</u>
Adjusted 2015 program expenses	22,709,821
Total 2014 program expenses under GASB 27	<u>22,319,489</u>
Increase in program expenses not related to pension	<u>\$390,332</u>

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. As the result of legislation enacted in 1976, the revenue from tax on real property generated by the levy will not increase solely as a result of inflation.

As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home were reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00. Property taxes made up approximately 33 percent of revenues for governmental activities for the School District in fiscal years 2014 and 2015 and decreased minimally by 2.5 percent. While the School District operates on a very tight budget, revenue sources are projected to keep pace with expenses for the succeeding fiscal year.

During fiscal year 2015, total revenues decreased \$879,362. The largest decrease, reflected in operating grants, contributions, and interest in the amount of \$775,067, was primarily due to the School District participating in the Straight A Grant program in fiscal year 2014. The School District received \$581,559 of the amount awarded in the prior year.

Expenses remained consistent with the prior year and decreasing merely by less than one percent.

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

**East Muskingum Local School District, Ohio**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
Unaudited*

**Table 3**

	Total Cost of Services 2015	Net Cost of Services 2015	Total Cost of Services 2014	Net Cost of Services 2014
Instruction:				
Regular	\$9,578,458	\$7,848,798	\$9,524,425	\$7,390,667
Special	3,218,479	1,689,657	3,203,350	1,639,493
Vocational	184,920	140,192	221,835	188,155
Student Intervention Services	558,929	558,929	391,917	391,917
Support Services:				
Pupils	441,638	441,638	470,230	470,230
Instructional Staff	657,164	656,344	559,543	267,131
Board of Education	37,958	37,958	41,403	41,403
Administration	2,061,389	2,061,389	2,140,302	2,140,302
Fiscal	492,010	488,529	613,587	608,191
Operation and Maintenance of Plant	1,901,599	1,815,175	1,952,364	1,873,078
Pupil Transportation	1,288,178	1,288,178	1,323,491	1,298,269
Central	128,094	117,294	202,186	191,386
Food Service Operations	1,072,894	119,215	1,064,469	123,157
Extracurricular Activities	444,445	284,325	460,341	300,807
Interest	139,972	139,972	150,046	150,046
Total Expenses	<u>\$22,206,127</u>	<u>\$17,687,593</u>	<u>\$22,319,489</u>	<u>\$17,074,232</u>

As shown from the table above, the net cost of services has remained relatively consistent at between 76 and 80 percent of the total cost of services. Instructional programs have remained consistent at approximately 60 percent of total governmental program expenses. Of the instructional expenses, approximately 71 percent is for regular instruction, 24 percent for special instruction, 1 percent for vocational, and 4 percent for intervention services instruction, which are similar percentages in comparison to fiscal year 2014.

The dependence upon tax revenues and State subsidies for governmental activities is apparent, with 80 percent of the School District's activities being supported through taxes and unrestricted grants and entitlements.

**The School District Funds**

The School District's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$21,516,124, expenditures of \$21,542,502, and a combined net decrease in fund balances of \$26,378. This net decrease represents less than one percent of the prior year combined fund balance. This small change is representative the School District's commitment of keeping expenditures in line with fixed revenue streams.

The largest change was in the Permanent Improvement Capital Projects Fund, which reflects an increase in fund balance in the amount of \$142,636. The School District was able to decrease expenditures in pupil transportation program by \$183,363 from the prior year. The General Fund is the primary operating fund of the School District. At the end of fiscal year 2015, unassigned fund balance was \$4,260,352, while total fund balance was \$4,762,161. As a measure of the General Fund's liquidity, it may be useful to compare both the unassigned fund balance and total fund balance to total fund expenditures.

## **East Muskingum Local School District, Ohio**

### *Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2015*

Unaudited

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Unassigned fund balance represents 24 percent of total General Fund expenditures, while total fund balance represents 27 percent of that same amount. In an effort to match current year expenditures to fixed revenue streams, the School District realized a three percent decrease in the General Fund balance from the prior year.

#### *General Fund Budgeting Highlights*

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

For the General Fund, budget basis revenues were \$645,287 below final estimates of \$18,479,404. Of this difference, the majority was due to foundation estimates being higher than final amounts actually received.

Budget basis expenditures were \$1,103,782 lower than final estimates of \$19,126,591. The largest variance in expenditures was in support services - fiscal with final actual amounts being \$434,978 less than final budgeted amounts. The School District had prepared for additional unforeseen expenditures in this program that did not occur.

The School District's ending General Fund budgetary basis balance was \$458,495 higher than the final estimate.

#### **Capital Assets and Debt Administration**

##### *Capital Assets*

At the end of fiscal year 2015, the School District had \$22,068,463 invested in land, land improvements, buildings and improvements, furniture, fixtures, and equipment, and vehicles, net of depreciation. See Note 8 for more detailed information of the School District's capital assets.

##### *Debt*

At June 30, 2015, the School District had \$3,860,000 in general obligation bonds outstanding, with \$380,000 due within one year, and \$232,907 in Energy Conservation Notes, with \$34,675 due within one year.

The bonds were issued for school facilities construction and improvements. The bonds will be fully repaid by fiscal year 2024. The Energy Conservation Notes were issued for geothermal heating and cooling improvements to the Perry Elementary building. The notes will be fully repaid by fiscal year 2021. See Note 14 for more detail on the School District's debt including the current year refunding.

#### **Economic Factors**

Based on the most recent five year forecast adopted by the Board of Education, the School District is projecting deficit spending in the amount of \$148,487, beginning in fiscal year 2016. However, all projected ending cash balances are forecasted to be positive throughout the duration of the latest forecast. The Board of Education and Administration of the School District must maintain careful financial planning and prudent fiscal management in order to maintain the financial stability of the School District.

**East Muskingum Local School District, Ohio**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2015*

Unaudited

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

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Lottie Fisher, Treasurer/CFO at East Muskingum Local School District, 13505 John Glenn School Road, New Concord, Ohio 43762, or e-mail at [lfisher@eastmschools.org](mailto:lfisher@eastmschools.org).

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**East Muskingum Local School District**

*Statement of Net Position*

*June 30, 2015*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$8,207,963
Cash and Cash Equivalents in Segregated Accounts	1,289
Accounts Receivable	46,314
Accrued Interest Receivable	7,874
Intergovernmental Receivable	345,716
Inventory Held for Resale	9,285
Materials and Supplies Inventory	176,611
Prepaid Items	52,288
Property Taxes Receivable	7,590,842
Nondepreciable Capital Assets	244,989
Depreciable Capital Assets, Net	<u>21,823,474</u>
Total Assets	<u>38,506,645</u>
 <b>Deferred Outflows of Resources</b>	
Pension	<u>1,743,226</u>
 <b>Liabilities</b>	
Accrued Wages and Benefits Payable	1,499,379
Accounts Payable	140,803
Intergovernmental Payable	433,345
Matured Compensated Absences Payable	187,203
Matured Longevity Benefits Payable	299,332
Accrued Interest Payable	15,693
Claims Payable	158,587
Long-Term Liabilities:	
Due Within One Year	755,817
Due In More Than One Year:	
Net Pension Liability (See Note 11)	24,078,858
Other Amounts Due In More Than One Year	<u>4,698,420</u>
Total Liabilities	<u>32,267,437</u>
 <b>Deferred Inflows of Resources</b>	
Property Taxes	4,585,912
Pension	<u>4,365,817</u>
Total Deferred Inflows of Resources	<u>8,951,729</u>
 <b>Net Position</b>	
Net Investment in Capital Assets	17,781,169
Restricted for:	
Capital Projects	1,576,016
Debt Service	542,121
Unclaimed Monies	1,402
State Programs	221
Federal Programs	216,799
Food Service	402,228
Classroom Facilities Maintenance	169,429
Other Purposes	96,165
Unrestricted (Deficit)	<u>(21,754,845)</u>
Total Net Position (Deficit)	<u><u>(\$969,295)</u></u>

See accompanying notes to the basic financial statements

**East Muskingum Local School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2015

	Program Revenues			Net Expense and Change in Net Position	
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$9,578,458	\$1,539,540	\$132,831	\$57,289	(\$7,848,798)
Special	3,218,479	0	1,528,822	0	(1,689,657)
Vocational	184,920	0	44,728	0	(140,192)
Student Intervention Services	558,929	0	0	0	(558,929)
Support Services:					
Pupils	441,638	0	0	0	(441,638)
Instructional Staff	657,164	0	820	0	(656,344)
Board of Education	37,958	0	0	0	(37,958)
Administration	2,061,389	0	0	0	(2,061,389)
Fiscal	492,010	0	1,223	2,258	(488,529)
Operation and Maintenance of Plant	1,901,599	10,756	59,341	16,327	(1,815,175)
Pupil Transportation	1,288,178	0	0	0	(1,288,178)
Central	128,094	0	10,800	0	(117,294)
Operation of Non-Instructional Services:					
Food Service Operations	1,072,894	485,180	468,499	0	(119,215)
Extracurricular Activities	444,445	160,120	0	0	(284,325)
Interest	139,972	0	0	0	(139,972)
<b>Total Governmental Activities</b>	<b>\$22,206,127</b>	<b>\$2,195,596</b>	<b>\$2,247,064</b>	<b>\$75,874</b>	<b>(17,687,593)</b>
<b>General Revenues</b>					
Property Taxes Levied for:					
General Purposes					5,889,905
Capital Outlay					601,343
Debt Service					502,972
Capital Maintenance					102,545
Payment in Lieu of Taxes					4,246
Grants and Entitlements not					
Restricted to Specific Programs					9,283,394
Investment Earnings					60,573
Miscellaneous					166,324
<b>Total General Revenues</b>					<b>16,611,302</b>
Change in Net Position					(1,076,291)
Net Position Beginning of Year - Restated (See Note 21)					106,996
Net Position (Deficit) End of Year					<b>(\$969,295)</b>

See accompanying notes to the basic financial statements

**East Muskingum Local School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2015*

	General	Permanent Improvement Levy	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$4,826,446	\$1,352,681	\$1,268,574	\$7,447,701
Cash and Cash Equivalents in Segregated Accounts	0	0	1,289	1,289
Accounts Receivable	43,809	0	2,505	46,314
Intergovernmental Receivable	32,425	0	305,791	338,216
Accrued Interest Receivable	7,874	0	0	7,874
Inventory Held for Resale	0	0	9,285	9,285
Materials and Supplies Inventory	173,651	0	2,960	176,611
Prepaid Items	38,271	10,187	3,830	52,288
Interfund Receivable	3,908	0	307	4,215
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	1,402	0	0	1,402
Property Taxes Receivable	6,299,941	642,160	648,741	7,590,842
<b>Total Assets</b>	<u>\$11,427,727</u>	<u>\$2,005,028</u>	<u>\$2,243,282</u>	<u>\$15,676,037</u>
<b>Liabilities</b>				
Matured Compensated Absences Payable	\$187,203	\$0	\$0	\$187,203
Matured Longevity Benefits Payable	299,332	0	0	299,332
Accounts Payable	97,224	37,546	6,033	140,803
Accrued Wages and Benefits Payable	1,375,589	0	123,790	1,499,379
Interfund Payable	307	0	3,908	4,215
Intergovernmental Payable	410,270	0	23,075	433,345
<b>Total Liabilities</b>	<u>2,369,925</u>	<u>37,546</u>	<u>156,806</u>	<u>2,564,277</u>
<b>Deferred Inflows of Resources</b>				
Property Taxes	3,809,412	391,466	385,034	4,585,912
Unavailable Revenue	486,229	43,993	279,633	809,855
<b>Total Deferred Inflows of Resources</b>	<u>4,295,641</u>	<u>435,459</u>	<u>664,667</u>	<u>5,395,767</u>
<b>Fund Balances</b>				
Nonspendable:				
Inventories	173,651	0	2,960	176,611
Prepaid Items	38,271	10,187	3,830	52,288
Unclaimed Monies	1,402	0	0	1,402
Restricted for:				
Food Service Operations	0	0	406,632	406,632
State Grant Expenditures	0	0	221	221
Classroom Facilities Maintenance	0	0	161,313	161,313
Capital Projects	0	1,521,836	0	1,521,836
Debt Service	0	0	518,591	518,591
Other Purposes	0	0	94,689	94,689
Assigned to:				
Purchases on Order	98,018	0	0	98,018
Capital Projects	0	0	250,000	250,000
Subsequent Year's Appropriation	148,487	0	0	148,487
Other Purposes	41,980	0	0	41,980
Unassigned (Deficit)	4,260,352	0	(16,427)	4,243,925
<b>Total Fund Balances</b>	<u>4,762,161</u>	<u>1,532,023</u>	<u>1,421,809</u>	<u>7,715,993</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u>\$11,427,727</u>	<u>\$2,005,028</u>	<u>\$2,243,282</u>	<u>\$15,676,037</u>

See accompanying notes to the basic financial statements

**East Muskingum Local School District**  
*Reconciliation of Total Governmental Fund Balances  
to Net Position of Governmental Activities  
June 30, 2015*

<b>Total Governmental Fund Balances</b>		\$7,715,993
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		22,068,463
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as deferred inflows of resources in the funds:		
Grants	\$231,473	
Property Taxes	528,503	
Interest	7,874	
Charges for Services	9,441	
Miscellaneous Revenue	30,605	
Pupil Transportation	1,959	
Total	809,855	809,855
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position.		607,773
In the statement of activities, interest is accrued on outstanding general obligation bonds, whereas in governmental funds, an interest expenditure is reported when due.		(15,693)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
General Obligation Serial/Term Bonds	(3,860,000)	
Bond Premium	(122,526)	
Energy Conservation Loan	(232,907)	
Capital Leases	(71,861)	
Compensated Absences	(458,359)	
Longevity Benefits Payable	(708,584)	
Total	(5,454,237)	(5,454,237)
The net pension liability is not due and payable in the current period and therefore the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	1,743,226	
Deferred Inflows - Pension	(4,365,817)	
Net Pension Liability	(24,078,858)	
Total	(26,701,449)	(26,701,449)
Net Position (Deficit) of Governmental Activities		(\$969,295)

See accompanying notes to the basic financial statements

**East Muskingum Local School District**  
*Statement of Revenues, Expenditures, and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2015*

	General	Permanent Improvement Levy	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$5,949,404	\$606,019	\$610,487	\$7,165,910
Payment in Lieu of Taxes	3,443	447	356	4,246
Intergovernmental	10,084,766	75,874	1,787,340	11,947,980
Interest	58,820	0	378	59,198
Tuition and Fees	1,533,428	0	0	1,533,428
Extracurricular Activities	0	0	160,120	160,120
Rent	10,756	0	0	10,756
Charges for Services	0	0	484,989	484,989
Contributions and Donations	13,778	0	0	13,778
Miscellaneous	135,719	0	0	135,719
<b>Total Revenues</b>	<u>17,790,114</u>	<u>682,340</u>	<u>3,043,670</u>	<u>21,516,124</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	8,297,609	407,509	331,861	9,036,979
Special	2,586,179	0	736,068	3,322,247
Vocational	175,727	0	0	175,727
Student Intervention Services	558,929	0	0	558,929
Support Services:				
Pupils	403,883	0	0	403,883
Instructional Staff	410,658	0	181,777	592,435
Board of Education	31,271	0	0	31,271
Administration	1,891,237	0	0	1,891,237
Fiscal	435,419	16,059	16,060	467,538
Operation and Maintenance of Plant	1,524,106	116,136	137,076	1,777,318
Pupil Transportation	1,173,401	0	0	1,173,401
Central	114,713	0	10,800	125,513
Operation of Non-Instructional Services:				
Food Service Operations	0	0	949,925	949,925
Extracurricular Activities	284,166	0	161,446	445,612
Debt Service:				
Principal Retirement	32,445	0	403,181	435,626
Interest and Fiscal Charges	3,549	0	151,312	154,861
<b>Total Expenditures</b>	<u>17,923,292</u>	<u>539,704</u>	<u>3,079,506</u>	<u>21,542,502</u>
<b>Net Change in Fund Balances</b>	(133,178)	142,636	(35,836)	(26,378)
<b>Fund Balances Beginning of Year</b>	<u>4,895,339</u>	<u>1,389,387</u>	<u>1,457,645</u>	<u>7,742,371</u>
<b>Fund Balances End of Year</b>	<u>\$4,762,161</u>	<u>\$1,532,023</u>	<u>\$1,421,809</u>	<u>\$7,715,993</u>

See accompanying notes to the basic financial statements

**East Muskingum Local School District**  
*Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities*  
*For the Fiscal Year Ended June 30, 2015*

Net Change in Fund Balances - Total Governmental Funds		(\$26,378)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:		
Capital Asset Additions - Capital Outlay	\$17,540	
Current Year Depreciation	(1,311,151)	
Total		(1,293,611)
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of loss on disposal of assets.		
		(242)
Revenues and expenses in the statement of activities that do not provide current financial resources are not reported as revenues and expenditures in the funds:		
Property Taxes	(69,145)	
Interest	1,753	
Tuition and Fees	(2,508)	
Charges for Services	8,811	
Miscellaneous	30,605	
Intergovernmental	(451,792)	
Pupil Transportation	1,959	
Total		(480,317)
Repayments of principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position:		
General Obligation Bonds	370,000	
Energy Conservation Notes	33,181	
Capital Leases	32,445	
Total		435,626
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:		
Accrued Interest	1,275	
Amortization of Bond Premium	13,614	
Total		14,889
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Vacation Benefits Payable	61,260	
Compensated Absences	(12,001)	
Longevity Benefits Payable	165,109	
Total		214,368
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		1,515,784
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(1,012,090)
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. The net change in net position of the internal service fund is reported with governmental activities.		
		(444,320)
Change in Net Position of Governmental Activities		(\$1,076,291)

See accompanying notes to the basic financial statements

**East Muskingum Local School District**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2015*

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property Taxes	\$5,664,251	\$6,164,251	\$6,021,205	(\$143,046)
Payment in Lieu of Taxes	0	0	3,443	3,443
Intergovernmental	9,920,021	10,420,021	10,057,225	(362,796)
Interest	52,000	52,000	58,360	6,360
Tuition and Fees	1,512,000	1,512,000	1,533,299	21,299
Rentals	7,800	7,800	10,756	2,956
Contributions and Donations	0	0	13,778	13,778
Miscellaneous	323,332	323,332	136,051	(187,281)
<b>Total Revenues</b>	<b>17,479,404</b>	<b>18,479,404</b>	<b>17,834,117</b>	<b>(645,287)</b>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	8,338,129	8,717,491	8,445,530	271,961
Special	2,338,712	2,588,712	2,392,273	196,439
Vocational	203,432	203,432	201,734	1,698
Student Intervention Services	692,000	312,638	486,678	(174,040)
Support Services:				
Pupils	432,094	432,094	400,970	31,124
Instructional Staff	314,517	314,517	408,905	(94,388)
Board of Education	42,225	42,225	31,308	10,917
Administration	1,932,164	1,932,164	1,875,046	57,118
Fiscal	432,966	932,966	497,988	434,978
Operation and Maintenance of Plant	1,723,940	1,723,940	1,620,214	103,726
Pupil Transportation	1,341,576	1,341,576	1,214,221	127,355
Central	178,722	178,722	116,453	62,269
Extracurricular Activities	354,965	370,120	295,495	74,625
Debt Service:				
Principal Retirement	32,445	32,445	32,445	0
Interest and Fiscal Charges	3,549	3,549	3,549	0
<b>Total Expenditures</b>	<b>18,361,436</b>	<b>19,126,591</b>	<b>18,022,809</b>	<b>1,103,782</b>
<b>Net Change in Fund Balance</b>	<b>(882,032)</b>	<b>(647,187)</b>	<b>(188,692)</b>	<b>458,495</b>
<b>Fund Balance Beginning of Year</b>	<b>4,570,779</b>	<b>4,570,779</b>	<b>4,570,779</b>	<b>0</b>
<b>Prior Year Encumbrances Appropriated</b>	<b>187,639</b>	<b>187,639</b>	<b>187,639</b>	<b>0</b>
<b>Fund Balance End of Year</b>	<b>\$3,876,386</b>	<b>\$4,111,231</b>	<b>\$4,569,726</b>	<b>\$458,495</b>

See accompanying notes to the basic financial statements

**East Muskingum Local School District**

*Statement of Fund Net Position*

*Self-Insurance Internal Service Fund*

*June 30, 2015*

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	<u>Medical-Dental Insurance</u>
<b>Current Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$758,860
Intergovernmental Receivable	<u>7,500</u>
Total Current Assets	766,360
<b>Current Liabilities</b>	
Claims Payable	<u>158,587</u>
<b>Net Position</b>	
Unrestricted	<u><u>\$607,773</u></u>

See accompanying notes to the basic financial statements

**East Muskingum Local School District**  
*Statement of Revenues, Expenses, and Changes in Fund Net Position*  
*Self-Insurance Internal Service Fund*  
*For the Fiscal Year Ended June 30, 2015*

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	Medical-Dental Insurance
<b>Operating Revenues</b>	
Charges for Services	\$2,624,203
<b>Operating Expenses</b>	
Purchased Services	425,366
Claims	2,643,157
Total Operating Expenses	3,068,523
Change in Net Position	(444,320)
Net Position Beginning of Year	1,052,093
Net Position End of Year	\$607,773

See accompanying notes to the basic financial statements

**East Muskingum Local School District**  
*Statement of Cash Flows*  
*Self-Insurance Internal Service Fund*  
*For the Fiscal Year Ended June 30, 2015*

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	Medical-Dental Insurance
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities:</b>	
Cash Received from Interfund Services Provided	\$2,624,203
Cash Payments to Suppliers for Services	(425,366)
Cash Payments for Claims	(2,781,675)
<i>Net Cash Used for Operating Activities</i>	(582,838)
<i>Cash and Cash Equivalents Beginning of Year</i>	1,341,698
<i>Cash and Cash Equivalents End of Year</i>	\$758,860
 <b>Reconciliation of Operating Loss to</b>	
<b>Net Cash Used for Operating Activities:</b>	
Operating Loss	(\$444,320)
<b>Changes in Assets and Liabilities:</b>	
Increase in Intergovernmental Receivable	(7,500)
Decrease in Claims Payable	(131,018)
<i>Net Cash Used for Operating Activities</i>	(\$582,838)

See accompanying notes to the basic financial statements

**East Muskingum Local School District, Ohio**

*Statement of Fiduciary Assets and Liabilities*

*Agency Fund*

*June 30, 2015*

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**Assets**

Equity in Pooled Cash and Cash Equivalents	<u><u>\$45,192</u></u>
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**Liabilities**

Due to Students	<u><u>\$45,192</u></u>
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See accompanying notes to the basic financial statements

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**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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**Note 1 - Description of the School District and Reporting Entity**

The East Muskingum Local School District (the “School District”) is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The School District was established in 1958. The School District serves an area of approximately 192 square miles. It is located in Muskingum and Guernsey Counties, and includes all of the Village of New Concord, Ohio. The School District is staffed by 98 classified employees and 163 certificated full-time teaching personnel who provide services to 2,070 students and other community members. The School District currently operates six instructional buildings, two administrative buildings, and four garage/storage buildings.

*Reporting Entity*

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

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

The School District participates in six organizations which are defined as jointly governed organizations and two insurance purchasing pools. These organizations are the Licking Area Computer Association (LACA), Mid-East Career and Technology Centers, the Metropolitan Educational Technology Association (META), the Coalition of Rural and Appalachian Schools (CORAS), the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA), the Ohio Coalition of Equity and Adequacy of School Funding, the Southwestern Ohio Educational Purchasing Council Workers’ Compensation Group Rating Plan, and the Ohio School Benefits Cooperative. These organizations are presented in Notes 16 and 17 to the basic financial statements.

**Note 2 - Summary of Significant Accounting Policies**

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

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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The more significant of the School District's accounting policies are described below.

***A. Basis of Presentation***

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

***Government-wide Financial Statements*** The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities of the School District that are governmental (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). The School District, however, does not have any business-type activities.

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

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

***B. Fund Accounting***

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

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

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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

**Permanent Improvement Levy Fund** The Permanent Improvement Levy Capital Projects Fund of the School District is used to account for permanent improvement levy proceeds restricted to be used for expenditures of instructional materials and expenditures related to acquiring, constructing, and improving school facilities.

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

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

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

**Fiduciary Fund Type** Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District does not have any trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency fund accounts 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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the School District are included on the statement of net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

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

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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

***D. Basis of Accounting***

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

***Revenues - Exchange and Non-Exchange Transactions*** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of fiscal year-end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the accrual basis, payments from property taxes (See Note 6) are recognized in the fiscal year for which the taxes are levied. 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 School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

***Deferred Outflows/Inflows 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, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 11.

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 until that time. For the School District, deferred inflows of resources include property taxes, unavailable revenue, and pension.

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2015, but which were levied to finance fiscal year 2016 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District unavailable revenue includes delinquent property taxes, accrued interest, accounts receivable, and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 11)

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

***E. Cash and Cash Equivalents***

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

The School District has a separate bank account for athletic monies. The athletic account monies are kept separate from the School District treasury. This account is presented on the financial statements as "cash and cash equivalents in segregated accounts".

During fiscal year 2015, investments were limited to negotiable certificates of deposits. Investments in negotiable certificates of deposits are reported at fair value based on quoted market prices.

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 2015 amounted to \$58,820, which includes \$23,313 assigned from other School District funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments. The School District reports the change in fair value of investments.

***F. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2015, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

***G. Inventory***

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption and donated and purchased food held for resale.

**East Muskingum Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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***H. Capital Assets***

All of the School District’s capital assets are general capital assets resulting 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 fiscal year. The School District was able to estimate the historical cost for the initial reporting of capital assets by back trending (i.e. estimating the current replacement cost of the assets to be capitalized and using an appropriate price-index to deflate the costs to the acquisition year or estimated acquisition year). Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

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

Description	Estimated Lives
Buildings and Improvements	10-50 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	10-15 years

***I. Restricted Assets***

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other government or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent cash and cash equivalents for unclaimed monies.

***J. Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees’ rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for vacation eligible 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 School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees’ wage rates at fiscal year-end, taking into consideration any limits specified in the School District’s termination policy. The School District records a liability for accumulated unused sick leave after twenty-five years of current service with the School District.

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

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
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On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account “matured compensated absences payable” in the fund from which these payments will be made.

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

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and longevity benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Capital leases and general obligation bonds are recognized as a liability on the governmental fund financial statements when due.

***L. 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 system. 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.

***M. Internal Activity***

Transfers within governmental activities are eliminated on the government-wide statements.

Internal allocations of overhead expenses from one program to another or within the same program are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

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

***N. Interfund Balances***

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

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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***O. Fund Balance***

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

***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 can also include the long-term amount of loans receivable, prepaids, as well as inventory, unless the use of the proceeds from the collection of those receivables, or from the use of the prepaids or inventory, is restricted, committed, or assigned.

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

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

***Assigned:*** Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by the School District Board of Education or a School District representative delegated that authority by resolution of by State statute. State statute authorizes the School District Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. The School District Board of Education assigned fund balance to cover a gap between estimated revenue and appropriations in fiscal year 2016’s appropriated budget.

***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 resulting from overspending for specific purposes for which amounts had been restricted, committed, and assigned.

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

***P. Net Position***

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation enacted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources required to be used for local resources restricted to expenditures for specified purposes.

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

***Q. Operating Revenues and Expenses***

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

***R. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

***S. Estimates***

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

***T. Budgetary Data***

All funds, other than 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 set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The Treasurer has been authorized to allocate Board appropriations to the function and object level.

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

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
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The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the final amended certificate of estimated resources in effect at the time the final appropriations were passed by the Board.

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

**Note 3 - Accountability**

The following special revenue funds had deficit fund balances as of June 30, 2015:

	<u>Amount</u>
Title I Grant	\$6,359
Miscellaneous Federal Grants	8,315

These deficits were created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances in the special revenue funds; however, this is done when cash is needed rather than when accruals occur.

**Note 4 - Budgetary Basis of Accounting**

While the School 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 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 presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Adjustments to record unreported cash and to record investments at market value are reported on the balance sheet (GAAP basis), but not on the budget basis.
4. Prepaid items are reported on the balance sheet (GAAP basis) but not on the budget basis.
5. Advances in and advances out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
6. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed, or assigned fund balance (GAAP basis).

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
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The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement for the General Fund.

Net Change in Fund Balance	
GAAP Basis	(\$133,178)
Net Adjustment for Revenue Accruals	44,463
Net Adjustment for Expenditure Accruals	103,057
Beginning of Fiscal Year:	
Fair Value Adjustment for Investments	63,754
Prepaid Items	33,513
End of Fiscal Year:	
Fair Value Adjustment for Investments	(64,214)
Prepaid Items	(38,271)
Adjustment for Encumbrances	(197,816)
Budget Basis	<u><u>(\$188,692)</u></u>

**Note 5 - Deposits and Investments**

Monies held by the School District are classified by State statute into three categories.

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

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

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

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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, 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 securities listed above;

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
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4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) above;
7. The State Treasurer’s investment pool (STAR Ohio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk for deposits is the risk that, in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, the entire bank balance of \$5,068,188 was insured and collateralized.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledge to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2015, the School District had investments in negotiable certificates of deposit:

	<u>Fair Value</u>	<u>Maturity</u>	<u>Percent of Total Investments</u>	<u>Rating</u>	<u>Agency</u>
Negotiable Certificates of Deposit	\$3,328,218	09/14/2015-11/05/2019	100.00%	N/A	N/A

**Interest Rate Risk.** The School District’s investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years, and allows for the withdrawal of funds from approved public depositories or sale of negotiable instruments prior to maturity. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity.

**Credit Risk.** The credit ratings for the School District’s securities are listed above. Ohio law requires that the money market mutual funds be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The School District has no investment policy that would further limit its investment choices.

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

Concentration of Credit Risk. The School District places no limit on the amount it may invest in any one issuer. The percentage of total investments is listed in the table above.

**Note 6 - Property Taxes**

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2015 represents collections of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed value listed as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or 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 property tax revenue received in calendar year 2015 represents collections of calendar year 2014 taxes. Public utility real and tangible personal property taxes received in calendar year 2015 became a lien December 31, 2013, were levied after April 1, 2014, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Muskingum and Guernsey Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2015, are available to finance fiscal year 2015 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which were measurable as of June 30, 2015, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources - property taxes.

The amount available as an advance at June 30, 2015, was \$2,053,358 in the General Fund, \$37,275 in the Classroom Facilities Special Revenue Fund, \$179,093 in the Bond Retirement Debt Service Fund, and \$206,701 in the Permanent Improvement Levy Capital Projects Fund. The amount available as an advance, and recognized as revenue at June 30, 2014, was \$2,125,159 in the General Fund, \$38,800 in the Classroom Facilities Special Revenue Fund, \$178,904 in the Bond Retirement Debt Service Fund, and \$214,382 in the Permanent Improvement Capital Projects Fund.

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

The assessed values upon which the fiscal year 2015 taxes were collected are:

	2014 Second- Half Collections		2015 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$240,348,210	85.50%	\$239,392,750	85.20%
Public Utility Personal	40,795,280	14.50%	41,591,560	14.80%
Total	\$281,143,490	100.00%	\$280,984,310	100.00%
Tax rate per \$1,000 of assessed valuation	\$37.87		\$37.97	

The increase in the millage from the prior year is due to an increase in the tax rate of the Bond Retirement Debt Service Fund. The county auditors review the balance in this fund and adjust the millage so that the balance is not excessive as compared to future debt service requirements.

**Note 7 - Receivables**

Receivables at June 30, 2015, consisted of property taxes, intergovernmental grants, accounts, interfund, and accrued interest. 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. Delinquent property taxes deemed collectible by the County Auditor and recorded as a receivable in the amount of \$528,503 may not be collected in one year. All other receivables are expected to be received within one year.

A summary of principal items of intergovernmental receivables follows:

	Amounts
<b><u>Governmental Activities</u></b>	
Title I	\$222,830
Foundation Adjustments	32,075
Title VI-B IDEA	82,961
Miscellaneous Intergovernmental Receivables	350
Total Governmental Activities	\$338,216
<b><u>Internal Service Activities</u></b>	
Miscellaneous Intergovernmental Receivables	7,500
Total Intergovernmental Receivables	\$345,716

**East Muskingum Local School District**  
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**Note 8 - Capital Assets**

Capital assets activity for the fiscal year ended June 30, 2015, was as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
<b>Nondepreciable Capital Assets</b>				
Land	\$238,139	\$0	\$0	\$238,139
Land Improvements	6,850	0	0	6,850
Total Non-Depreciable Capital Assets	<u>244,989</u>	<u>0</u>	<u>0</u>	<u>244,989</u>
<b>Depreciable Capital Assets</b>				
Buildings and Improvements	41,686,979	0	0	41,686,979
Furniture, Fixtures, and Equipment	1,564,665	17,540	(5,765)	1,576,440
Vehicles	2,241,739	0	0	2,241,739
Total Depreciable Capital Assets	<u>45,493,383</u>	<u>17,540</u>	<u>(5,765)</u>	<u>45,505,158</u>
<b>Less Accumulated Depreciation</b>				
Buildings and Improvements	(20,073,399)	(1,145,318)	0	(21,218,717)
Furniture, Fixtures, and Equipment	(1,123,464)	(50,308)	5,523	(1,168,249)
Vehicles	(1,179,193)	(115,525)	0	(1,294,718)
Total Accumulated Depreciation	<u>(22,376,056)</u>	<u>(1,311,151) *</u>	<u>5,523</u>	<u>(23,681,684)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>23,117,327</u>	<u>(1,293,611)</u>	<u>(242)</u>	<u>21,823,474</u>
Governmental Activities Capital Assets, Net	<u>\$23,362,316</u>	<u>(\$1,293,611)</u>	<u>(\$242)</u>	<u>\$22,068,463</u>

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

Instruction:	
Regular	\$615,348
Special	113,113
Vocational	14,878
Support Services:	
Pupils	37,713
Instructional Staff	58,674
Board of Education	6,687
Administration	127,219
Fiscal	3,449
Operation and Maintenance of Plant	81,810
Pupil Transportation	112,996
Central	2,581
Extracurricular	3,209
Food Service Operations	133,474
Total Depreciation Expense	<u>\$1,311,151</u>

**East Muskingum Local School District**  
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**Note 9 - Risk Management**

***A. Property and Liability***

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015, the School District purchased its property, fleet, and liability insurance from Argonaut Insurance Company.

The types and amounts of coverage provided by the Argonaut Insurance Group are as follows:

Building and Contents-replacement cost (\$2,500 deductible)	\$59,405,048
Automobile Liability (\$250 Comprehensive/\$500 Collision deductible)	1,000,000
Auto Medical Payments	5,000
Uninsured/Underinsured Motorists	1,000,000
General Liability	
Per occurrence	1,000,000
Aggregate Per Year	3,000,000
Rented Property Damage	500,000
Employee Benefits Liability	
Per occurrence	1,000,000
Aggregate Per Year	3,000,000
Employer's Liability	1,000,000
Educational Legal Liability Limit (\$2,500 deductible)	1,000,000
Aggregate Per Year	3,000,000
Commercial Excess Liability	1,000,000
Commercial Crime	25,000

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

***B. Workers' Compensation***

For fiscal year 2015, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. 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 GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Hunter Consulting Company provides administrative, cost control, and actuarial services to the GRP.

***C. Employee Medical/Surgical and Dental Benefits***

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. Monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The Board pays 80 percent of the medical/surgical premiums for family coverage and 90 percent for single coverage. The Board's share of the medical/surgical premiums is \$1,060 for family coverage and \$456 for single coverage. The Board pays 100 percent of the dental premiums for family and single coverage which is \$74 for both. The medical/surgical and dental premiums are paid from the fund that pays the salary of the covered employee.

**East Muskingum Local School District**  
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The claims liability of \$158,587 reported in the internal service fund at June 30, 2015, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating 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. The School District purchases an aggregate stop-loss coverage policy in the amount of \$3,696,878. In addition, the School District has contracted for an excess stop-loss coverage, with a maximum allowable covered expense per individual of \$100,000 annually.

Changes in the fund's claims liability amount in fiscal years 2014 and 2015 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2014	\$162,000	\$2,588,574	\$2,460,969	\$289,605
2015	289,605	2,650,657 (1)	2,781,675	158,587
(1) Claims Expense		\$2,643,157		
Net Increase in Stop Loss Receivable		7,500		
Current Year Claims		\$2,650,657		

**Note 10 - Employee Benefits**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components are derived from Board policy and State laws. Classified employees and administrators who are contracted to work a minimum of 260 days earn ten to twenty-five days of vacation per year, depending upon length of service. All employees who qualify for vacation time must be with the School District for one year before receiving vacation hours. All employees who qualify for vacation time can accrue up to a maximum of the immediately preceding two years, plus the prorated portion of earned but unavailable for use vacation time of the current year. The School District pays accumulated, unused vacation hours to employees who qualify for vacation time upon termination of employment at the employee's current rate of pay. Teachers, administrators, and staff who work less than 260 days per year do not earn vacation time.

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 220 days for all personnel. Upon retirement, payment is made for one-third of accrued, but unused sick leave credit to a maximum of 40 days for all employees.

**B. Life and Vision Insurance**

The School District provides life insurance and accidental death and dismemberment insurance to most employees through The Lincoln National Life Insurance Company.

The School District provides vision insurance to employees through Vision Service Plan.

***C. Longevity Benefits Payable***

Employees who retire are eligible for a longevity/service benefit. Employees that have completed between one and ten years of service at the School District upon retirement, are paid a longevity benefit payment equal to one percent of their annual salary earned in the year of retirement multiplied by the years of service with the School District. Employees that have completed between eleven and twenty years of service at the School District upon retirement, are paid a longevity benefit payment equal to one and one quarter percent of their annual salary earned in the year of retirement multiplied by the years of service with the School District. Employees that have completed over twenty years of service at the School District upon retirement, are paid a longevity benefit payment equal to one and one half percent of their annual salary earned in the year of retirement multiplied by the years of service with the School District. Retiree's must notify the School District by March 1 of each year as to their intent to retire and to apply for the retirement/longevity benefit. Payment of the retirement/longevity benefit is limited to five percent of the number of employees in each year based upon seniority. The benefit is paid in one lump sum at the time of retirement from the fund and function that pays the employees' salaries.

**Note 11 - Defined Benefit Pension Plans**

***Net Pension Liability***

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

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

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

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

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$295,832 for fiscal year 2015. Of this amount \$55,877 is reported as an intergovernmental payable.

**East Muskingum Local School District**  
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***Plan Description - State Teachers Retirement System (STRS)***

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

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

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

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.

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
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Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$1,219,952 for fiscal year 2015. Of this amount, \$191,114 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$3,914,488	\$20,164,370	\$24,078,858
Proportion of the Net Pension Liability	0.077347%	0.08290091%	
Pension Expense	\$229,654	\$782,436	\$1,012,090

At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$33,316	\$194,126	\$227,442
School District contributions subsequent to the measurement date	<u>295,832</u>	<u>1,219,952</u>	<u>1,515,784</u>
Total Deferred Outflows of Resources	<u>\$329,148</u>	<u>\$1,414,078</u>	<u>\$1,743,226</u>

**Deferred Inflows of Resources**

Net difference between projected and actual earnings on pension plan investments	<u>\$635,332</u>	<u>\$3,730,485</u>	<u>\$4,365,817</u>
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\$1,515,784 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2016	(\$150,420)	(\$884,090)	(\$1,034,510)
2017	(150,420)	(884,090)	(1,034,510)
2018	(150,420)	(884,090)	(1,034,510)
2019	<u>(150,756)</u>	<u>(884,089)</u>	<u>(1,034,845)</u>
Total	<u>(\$602,016)</u>	<u>(\$3,536,359)</u>	<u>(\$4,138,375)</u>

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
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***Actuarial Assumptions - SERS***

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

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

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

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

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

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$5,584,811	\$3,914,488	\$2,509,602

**Actuarial Assumptions - STRS**

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

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

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

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
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Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

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

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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, 2014. 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, 2014.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$28,867,495	\$20,164,370	\$12,804,456

**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. As of June 30, 2015, there are three employees who have elected Social Security. The Board's liability is 6.2 percent of wages paid.

## **Note 12 - Postemployment Benefits**

### ***School Employees Retirement System***

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

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required 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 2015, 0.82 percent 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 2015, this amount was \$20,450. 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 percent of the total statewide SERS-covered payroll for the health care surcharge. During fiscal year 2015, the School District paid \$40,802 in surcharge obligation.

The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013, were \$61,629, \$42,790, and \$41,092, respectively. For fiscal year 2015, 29.66 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2014 and 2013.

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

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

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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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. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$89,154, and \$85,700, respectively. The full amount has been contributed for fiscal years 2015, 2014, and 2013.

**Note 13 - Capitalized Leases**

In prior years, the School District has entered into capitalized leases for copying equipment.

The leases meet the criteria of a capital lease which is defined as transferring benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the basic financial statements for the governmental funds.

Equipment acquired by lease has been capitalized in the government-wide statements governmental activities in the amount of \$195,374, which is equal to the present value of the minimum lease payments. A corresponding liability was recorded in the government-wide statements governmental activities. Assets acquired by governmental activities capitalized leases are reported, net of accumulated depreciation, in the amount of \$155,778. Principal payments in fiscal year 2015 totaled \$32,445 in the governmental funds.

Future minimum lease payments through fiscal year 2018 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2016	\$33,755	\$2,239
2017	35,117	877
2018	2,989	10
Totals	<u>\$71,861</u>	<u>\$3,126</u>

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

**Note 14 - Long-Term Obligations**

The changes in the School District's long-term obligations during the year consist of the following:

	Outstanding 06/30/14	Additions	Reductions	Outstanding 06/30/15	Due Within One Year
<b>Governmental Activities:</b>					
2012 School Facilities Refunding					
Serial Bonds - various	\$4,230,000	\$0	\$370,000	\$3,860,000	\$380,000
Bond Premium	136,140	0	13,614	122,526	0
Total General Obligation Bonds	<u>4,366,140</u>	<u>0</u>	<u>383,614</u>	<u>3,982,526</u>	<u>380,000</u>
2007 House Bill 264 Energy					
Conservation Notes - 4.5%	266,088	0	33,181	232,907	34,675
Net Pension Liability					
STRS	24,019,666	0	3,855,296	20,164,370	0
SERS	4,599,578	0	685,090	3,914,488	0
Total Net Pension Liability	<u>28,619,244</u>	<u>0</u>	<u>4,540,386</u>	<u>24,078,858</u>	<u>0</u>
Capital Leases	104,306	0	32,445	71,861	33,755
Compensated Absences Payable	446,358	263,100	251,099	458,359	144,947
Longevity Benefits Payable	<u>873,693</u>	<u>138,157</u>	<u>303,266</u>	<u>708,584</u>	<u>162,440</u>
Total Long-Term Obligations	<u>\$34,675,829</u>	<u>\$401,257</u>	<u>\$5,543,991</u>	<u>\$29,533,095</u>	<u>\$755,817</u>

For more information on the net pension liability, see Note 11.

Compensated absences and the longevity benefits payable will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund and the Food Service Special Revenue Fund. The capital leases will be paid from the General Fund.

On September 9, 2011, the School District issued \$4,950,000 of School Facilities General Obligation Refunding serial bonds with varying interest rates between 2 percent to 4 percent. The general obligation refunding bonds were sold at a premium of \$176,988 that will be amortized over the term of the bonds. The amount amortized for fiscal year 2015 was \$13,614 leaving an unamortized balance of \$122,526. Issuance costs associated with the refunding bond issue, in the amount of \$86,809, was expensed in the year of issuance. The refunding resulted in a current refunding of the 2001 School Facilities serial and term bonds. \$5,121,344 (after premium, underwriting fees, and other issuance costs) was deposited into an irrevocable trust to provide for all future debt service payments on the refunded 2001 bonds. On December 1, 2011, the 2001 refunded bonds were called and paid in full and the escrow account was closed. As a result of the refunding, \$5,305,000 of refunded bonds is considered defeased and the liability is removed from the statement of net position. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition in the amount of \$121,344. This difference was expensed during fiscal year 2012. The School District completed the current refunding to reduce its total debt service requirements over the next 12 years by \$582,478 in order to obtain an economic gain of \$487,382.

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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Annual debt service requirements to maturity for the general obligation bonds are as follows:

Year	Principal	Interest	Total
2016	\$380,000	\$131,188	\$511,188
2017	385,000	122,888	507,888
2018	395,000	111,513	506,513
2019	410,000	95,100	505,100
2020	425,000	79,306	504,306
2021-2023	1,865,000	151,800	2,016,800
Total	<u>\$3,860,000</u>	<u>\$691,795</u>	<u>\$4,551,795</u>

The bonds maturing on or after December 1, 2021, are subject to redemption at the option of the School District, either in whole or in part, in such order of maturity as the School District shall determine, on any date on or after June 1, 2021, at a redemption price equal to 100 percent of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

The School District obtained approval to participate in the Ohio School District Credit Enhancement Program on November 9, 2010. The additional level of security afforded by the Credit Enhancement Program provides the basis for consideration of a higher debt rating by certain rating agencies. As a result, the School District obtained a Moody's rating on the 2011 School Facilities Refunding Bonds of Aa2.

On August 9, 2006, the School District issued \$497,079 in unvoted Energy Conservation Notes, under the authority of Ohio Revised Code sections 133.06(G) and 3313.46(B). The Energy Conservation Notes were issued for the purpose of purchasing and installing energy conservation measures. These energy conservation measures include geothermal cooling energy operational improvements to Perry Elementary. The energy conservation notes mature January 15, 2021. The debt will be retired through reductions in energy consumption and cost savings attributed to the installation of the energy conservation improvements.

Principal and interest requirements to retire the School Energy Conservation Notes, outstanding at June 30, 2015, are as follows:

Year	Principal	Interest	Total
2016	\$34,675	\$10,480	\$45,155
2017	36,235	8,920	45,155
2018	37,866	7,290	45,156
2019	39,570	5,586	45,156
2020	41,350	3,805	45,155
2021	43,211	1,945	45,156
Total	<u>\$232,907</u>	<u>\$38,026</u>	<u>\$270,933</u>

The School District's overall legal debt margin was \$21,610,370, with an unvoted debt margin of \$280,628 at June 30, 2015.

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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**Note 15 - Interfund Balances**

The governmental balance sheet reflects interfund receivables and payables in the amount of \$4,215. This is the result of cash deficit balance in the Title I Grant Special Revenue Fund in the amount of \$3,908, which was covered by a cash advance from the General Fund. Also, the Food Service Special Revenue Fund reflects an interfund receivable from the General Fund in the amount of \$307. This transaction was due to a lag between the date the interfund service was provided and when the transaction was recorded in the accounting system.

The above interfund balances are anticipated to be repaid within one fiscal year.

**Note 16 - Jointly Governed Organizations**

***A. Licking Area Computer Association (LACA)***

The School District is a participant in LACA, which is a computer consortium. LACA is an association which serves over thirty entities within the boundaries of Licking, Muskingum, Fairfield, Perry, Knox, and Medina Counties. These entities consist of public school districts, private schools, and educational service centers. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of LACA consists of the superintendents from all participating districts. The board exercised total control over the operations of LACA including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the board. The continued existence of LACA is not dependent on the School District's continued participation and the School District has no equity interest in the Association. The LACA constitution states that any school district withdrawing from the Association prior to the dissolution forfeits their claim to the Association's capital assets. The School District's total payments to LACA for computer and internet services during fiscal year 2015 were \$129,979. The fiscal agent for LACA is the Career and Technology Education Centers of Licking County. Financial information may be obtained from LACA at 150 South Quentin Road, Newark, Ohio 43055.

***B. Mid-East Career and Technology Centers***

The Mid-East Career and Technology Centers is a jointly governed organization providing vocational education services to its thirteen member school districts. The Center is a distinct political subdivision of the State of Ohio operated under the direction of a board consisting of one representative from each of the participating school district's elected boards. The board possesses its own taxing authority. The board also exercised total control over the operations of Mid-East Career and Technology Centers including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the board. The continued existence of the Center is not dependent on the School District's continued participation and no equity interest exists. During fiscal year 2015, the School District made no contributions to the Center. Financial information may be obtained from Mid-East Career and Technology Centers at 400 Richards Road, Zanesville, Ohio 43701.

***C. Metropolitan Educational Technology Association (META)***

The School District participates in the Metropolitan Educational Technology Association (META), formerly the Metropolitan Educational Council (MEC), which is a jointly governed organization, created as a regional council of governments pursuant to Chapter 167 of the Ohio Revised Code.

**East Muskingum Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015*

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META operates as, and has all the powers of, a data acquisition site/information technology center pursuant to applicable provisions of the Ohio Revised Code. The organization was formed for the purpose of identifying, developing, and providing to members and nonmembers innovative educational and technological services and products, as well as expanded opportunities for cooperative purchasing. The General Assembly of META consists of one delegate from every member school district. The delegate is the superintendent of the school district or the superintendent's designee. The degree of control exercised by any participating school district is limited to its representation on the General Assembly. The General Assembly exercises total control over the operation of META including budgeting, appropriating, contracting, and designating management. During fiscal year 2015, the School District made a payment of \$821 to MEC for a membership fee. Financial information can be obtained from Metropolitan Educational Technology Association at 100 Executive Drive, Marion, Ohio 43302.

***D. Coalition of Rural and Appalachian Schools (CORAS)***

The Coalition of Rural and Appalachian Schools (CORAS) is a jointly governed organization composed of over 130 school districts and other educational institutions in the 35-county region of Ohio designated as Appalachia. The Coalition is operated by a board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 35 Appalachian counties are divided; and three from Ohio University College of Education. The board exercised total control over the operations of CORAS including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the board. The Coalition provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children 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 Coalition is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Coalition. During fiscal year 2015, the School District made a payment of \$325 for a membership fee. Financial information may be obtained from the Coalition of Rural and Appalachian Schools at Lindley Hall Room 200, Ohio University, Athens, Ohio 45701.

***E. Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA)***

The Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) was created as a regional council of governments pursuant to State statutes. OME-RESA has twelve participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Monroe, Noble, and Tuscarawas Counties. OME-RESA operates under the direction of a board, which possesses its own taxing authority, consisting of one representative from each of the participating school district's elected boards. The board also exercised total control over the operations of OME-RESA including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the board. OME-RESA provides educational management information and cooperative purchasing services to member districts. The School District participates in the sales service programs to purchase food, office, and classroom supplies. These programs allow schools to purchase supplies at reduced rates. During fiscal year 2015, the total amount paid to OME-RESA from the School District was \$601 for these services. The Jefferson County Educational Service Center serves as the fiscal agent and receives funding from the State Department of Education. Financial information may be obtained from OME-RESA at 2230 Sunset Boulevard, Suite 2, Steubenville, Ohio 43952.

***F. 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 to challenge the constitutionality of the Ohio school funding system. The purpose of the Coalition is to bring about greater equity and adequacy of public school funding in Ohio. 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 Committee exercised total control over the operations of the Coalition including budgeting, appropriating, contracting, and designating management. Each participant's control is limited to its representation on the board. The membership of the coalition includes over 500 school districts throughout the State of Ohio. Member school districts, joint vocational schools, and educational service centers pay annual dues and supplemental dues based on their pupil enrollment. 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 2015, the School District paid \$1,106 to the Coalition. The fiscal agent for the Coalition is the Muskingum Valley Educational Service Center. Financial information may be obtained from the Ohio Coalition of Equity and Adequacy of School Funding at 100 South Third Street, Columbus, Ohio 43215.

**Note 17 - Insurance Purchasing Pools**

***A. Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan***

The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center, and eight other members elected by majority vote of all participants. The Chief Administrator of the GRP serves as the coordinator of the program. Each fiscal year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

***B. Ohio School Benefits Cooperative***

The School District participates in the Ohio School Benefits Cooperative, a claims servicing and group purchasing pool comprised of 37 members. The Ohio School Benefits Cooperative (OSBC) is created and organized pursuant to and as authorized by Section 9.833 of the Ohio Revised Code. OSBC is governed by a nine member Board of Directors, all of whom must be school district and/or educational service center administrators. The Muskingum Valley Educational Service Center serves as the fiscal agent for OSBC. OSBC is an unincorporated, non-profit association of its members which was created for the purpose of enabling members of the Plan to maximize benefits and/or reduce costs of medical, prescription drug, vision, dental, life and/or other group insurance coverage for their employees, and the eligible dependents and designated beneficiaries of such employees.

Participants paid an initial \$500 membership fee to OSBC. OSBC offers two options to participants. Participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OSBC's third party administrator. Medical Mutual/Antares is the Administrator of the OSBC. On November 1, 2005, the School District elected to participate in the self-insured purchasing program for medical, prescription drug, and dental.

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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**Note 18 - Contingencies**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2015, if applicable, cannot be determined at this time.

**B. Foundation**

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school 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, 2015 Foundation funding for the school district; therefore, the financial statement impact is not fully determinable at this time. ODE and management believe this will result in either a receivable to or a liability of the School District.

**C. Litigation**

The School District is currently not a party to any legal proceedings.

**Note 19 - Set-Asides**

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for an equal amount to 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 acquisitions. Disclosure of this information is required by State statute.

	Capital Acquisition
Set-aside Reserve Balance June 30, 2014	\$0
Current Year Set-aside Requirement	376,747
Current Year Offsets	(1,226,376)
Current Year Qualifying Disbursements	(155,399)
Total	(\$1,005,028)
Balance Carried Forward to Fiscal Year 2016	\$0

**East Muskingum Local School District**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2015*

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The School District had qualifying disbursements and offsets during the fiscal year that reduced the capital improvements set-aside amounts to or below zero. The excess in the capital maintenance set-aside may not be carried forward to reduce the set-aside requirement in future years.

**Note 20 - Significant Commitments**

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year-end, the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

Governmental Funds	Encumbrances
General Fund	\$197,816
Permanent Improvement Levy	424,017
Nonmajor Governmental Funds	24,471
Total Governmental Funds	\$646,304

**Note 21 - Change in Accounting Principle and Restatement of Net Position**

For fiscal year 2015, the School District implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68". GASB Statement No. 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported at June 30, 2014:

Net Position June 30, 2014	\$27,312,139
Adjustments:	
Net Pension Liability	(28,619,244)
Deferred Outflow - Payments Subsequent to Measurement Date	1,414,101
Restated Net Position June 30, 2014	\$106,996

**Note 22 - Subsequent Event**

The Board of Education approved a 1 percent base salary increase for certified, classified, and administrative employees at the August 13, 2015 regular meeting to be effective August 17, 2015. In addition, at the same meeting, a 5 percent insurance premium increase, effective October 1, 2015, was approved for both the employee share and employer share of insurance premiums.

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**East Muskingum Local School District**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*School Employees Retirement System of Ohio*  
*Last Two Fiscal Years (1)*

	2014	2013
School District's Proportion of the Net Pension Liability	0.077347%	0.077347%
School District's Proportionate Share of the Net Pension Liability	\$3,914,488	\$4,599,578
School District's Covered-Employee Payroll	\$2,256,335	\$2,275,313
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	173.49%	202.15%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

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

**East Muskingum Local School District**  
*Required Supplementary Information*  
*Schedule of the School District's Proportionate Share of the Net Pension Liability*  
*State Teachers Retirement System of Ohio*  
*Last Two Fiscal Years (1)*

	2014	2013
School District's Proportion of the Net Pension Liability	0.0829001%	0.0829001%
School District's Proportionate Share of the Net Pension Liability	\$20,164,370	\$24,019,666
School District's Covered-Employee Payroll	\$8,472,100	\$8,778,800
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	238.01%	273.61%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	69.30%

(1) Information prior to 2013 is not available.

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

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**East Muskingum Local School District**  
*Required Supplementary Information*  
*Schedule of School District Contributions*  
*School Employees Retirement System of Ohio*  
*Last Ten Fiscal Years*

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$295,832	\$312,728	\$314,903	\$296,071
Contributions in Relation to the Contractually Required Contribution	<u>(295,832)</u>	<u>(312,728)</u>	<u>(314,903)</u>	<u>(296,071)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$2,244,550	\$2,256,335	\$2,275,313	\$2,201,268
Contributions as a Percentage of Covered-Employee Payroll	13.18%	13.86%	13.84%	13.45%

2011	2010	2009	2008	2007	2006
\$261,247	\$316,717	\$209,461	\$189,657	\$196,494	\$200,854
(261,247)	(316,717)	(209,461)	(189,657)	(196,494)	(200,854)
\$0	\$0	\$0	\$0	\$0	\$0
\$2,078,340	\$2,339,124	\$2,128,669	\$1,931,332	\$1,839,831	\$1,898,431
12.57%	13.54%	9.84%	9.82%	10.68%	10.58%

**East Muskingum Local School District**  
*Required Supplementary Information*  
*Schedule of School District Contributions*  
*State Teachers Retirement System of Ohio*  
*Last Ten Fiscal Years*

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$1,219,952	\$1,101,373	\$1,141,244	\$1,152,489
Contributions in Relation to the Contractually Required Contribution	<u>(1,219,952)</u>	<u>(1,101,373)</u>	<u>(1,141,244)</u>	<u>(1,152,489)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$8,713,943	\$8,472,100	\$8,778,800	\$8,865,300
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.00%	13.00%	13.00%

2011	2010	2009	2008	2007	2006
\$1,048,201	\$1,091,715	\$1,038,022	\$1,085,315	\$907,131	\$997,611
(1,048,201)	(1,091,715)	(1,038,022)	(1,085,315)	(907,131)	(997,611)
\$0	\$0	\$0	\$0	\$0	\$0
\$8,063,085	\$8,397,808	\$7,984,785	\$8,348,577	\$6,977,931	\$7,673,931
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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**EAST MUSKINGUM LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

<b>FEDERAL GRANTOR/ Pass-Through Grantor Program Title</b>	Grant Year	Federal CFDA Number	Receipts	Expenditures
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
<i>Passed-Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance:				
National School Lunch Program - Food Distribution	N/A	10.555	\$51,518	\$51,518
Cash Assistance:				
School Breakfast Program	2015	10.553	76,216	76,216
National School Lunch Program	2015	10.555	332,451	332,451
Cash Assistance Subtotal			<u>408,667</u>	<u>408,667</u>
Total Child Nutrition Cluster			<u>460,185</u>	<u>460,185</u>
Total U.S. Department of Agriculture			460,185	460,185
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
<i>Passed-Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	2014	84.010	42,742	42,742
	2015		340,884	344,744
Total Title I Grants to Local Educational Agencies			<u>383,626</u>	<u>387,486</u>
Special Education Cluster:				
Special Education, Grants to States (IDEA, Part B)	2014	84.027	33,452	33,452
	2015		297,122	297,122
Total Special Education, Grants to States (IDEA, Part B)			<u>330,574</u>	<u>330,574</u>
Special Education - Preschool Grants	2015	84.173	7,393	7,393
Total Special Education Cluster			337,967	337,967
Improving Teacher Quality State Grants	2014	84.367	1,816	1,816
	2015		95,889	95,889
Total Improving Teacher Quality State Grants			<u>97,705</u>	<u>97,705</u>
ARRA - Race-to-the-Top Incentive Grants, Recovery Act				
Race to the Top	2014	84.395	511	511
Race to the Top	2015		14,171	14,171
Race to the Top Mini Grant	2015		8,617	8,617
Ohio Appalachian Collaborative (OAC)	2015		64,246	1,008
Total ARRA - Race-to-the-Top Incentive Grants, Recovery Act			<u>87,545</u>	<u>24,307</u>
Total U.S. Department of Education			<u>906,843</u>	<u>847,465</u>
<b>Total Federal Awards Receipts and Expenditures</b>			<b><u>\$1,367,028</u></b>	<b><u>\$1,307,650</u></b>

*The Notes to the Schedule of Federal Awards Receipts and Expenditures is an integral part of this Schedule.*

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2015**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the School District's federal award programs receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

**NOTE B – CHILD NUTRITION CLUSTER**

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

**NOTE C – FOOD DONATION PROGRAM**

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



# 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

East Muskingum Local School District  
Muskingum County  
13505 John Glenn School Road  
New Concord, Ohio 43762

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 East Muskingum Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 15, 2016. We noted the School District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

### ***Internal Control Over Financial Reporting***

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 15, 2016



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

East Muskingum Local School District  
Muskingum County  
13505 John Glenn School Road  
New Concord, Ohio 43762

To the Board of Education:

### ***Report on Compliance for the Major Federal Program***

We have audited the East Muskingum Local School District's, Muskingum County, Ohio (the School District), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the School District's major federal program for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying Schedule of Findings identifies the School District's major federal program.

### ***Management's Responsibility***

The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

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

Our responsibility is to opine on the School District's compliance for the School District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Basis for Qualified Opinion on Child Nutrition Cluster***

As described in Finding 2015-001 in the accompanying Schedule of Findings, the School District did not comply with eligibility requirements applicable to its Child Nutrition Cluster major federal program. Compliance with this requirement is necessary, in our opinion, for the School District to comply with the requirements applicable to this program.

***Qualified Opinion on Child Nutrition Cluster***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Child Nutrition Cluster* paragraph, the School District complied, in all material respects, with the requirements referred to above that could directly and materially affect the Child Nutrition Cluster for the year ended June 30, 2015.

***Report on Internal Control Over Compliance***

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings as items 2015-001 and 2015-002 to be material weaknesses.

The School District's responses to our internal control over compliance findings are described in the accompanying Schedule of Findings or Corrective Action Plan. We did not audit the School District's responses and, accordingly, we express no opinion on them.

East Muskingum Local School District  
Muskingum County  
Independent Auditor's Report on Compliance with Requirements  
Applicable to the Major Federal Program and on Internal Control Over  
Compliance Required by OMB Circular A-133  
Page 3

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

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

**Dave Yost**  
Auditor of State  
Columbus, Ohio

March 15, 2016

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**EAST MUSKINGUM LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2015**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unmodified
<b>(d)(1)(ii)</b>	<b>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weaknesses reported for major federal programs?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Qualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510(a)?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b> <ul style="list-style-type: none"> <li>• Child Nutrition Cluster, CFDA #10.553 and CFDA #10.555</li> </ul>	
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

None.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2015  
(Continued)**

<b>3. FINDINGS FOR FEDERAL AWARDS</b>	
<b>Finding Number</b>	2015-001
<b>CFDA Title and Number</b>	Child Nutrition Cluster, CFDA #10.553 and CFDA #10.555
<b>Federal Award Number / Year</b>	2015
<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance/Material Weakness – Eligibility**

42 U.S.C. § 1758(b)(1)(A) provides that the income guidelines for determining eligibility for free lunches shall be 130 percent of the applicable family size income levels contained in the nonfarm income poverty guidelines prescribed by the Office of Management and Budget, as adjusted annually in accordance with subparagraph (B). The income guidelines for determining eligibility for reduced price lunches for any school year shall be 185 percent of the applicable family size income levels contained in the nonfarm income poverty guidelines prescribed by the Office of Management and Budget, as adjusted annually in accordance with subparagraph (B). The Office of Management and Budget guidelines shall be revised at annual intervals, or at any shorter interval deemed feasible and desirable.

During testing, we noted the School District did not properly mark students as free or reduced according to the income eligibility guidelines for 15% of the applications tested. The errors occurred at Perry Elementary, Pike Elementary, John Glenn High School & Larry Miller Intermediate School. This could lead to ineligible students receiving free and reduced benefits as well as the School District receiving incorrect amounts of Federal reimbursements.

The School District should follow income eligibility guidelines when determining which students are eligible for free and reduced lunches. In addition, the School District should establish controls to insure only eligible students are approved as free or reduced.

**Officials' Response:** Refer to the Corrective Action Plan at the end of this report.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2015  
(Continued)**

<b>3. FINDINGS FOR FEDERAL AWARDS (Continued)</b>	
<b>Finding Number</b>	2015-002
<b>CFDA Title and Number</b>	Child Nutrition Cluster, CFDA #10.553 and CFDA #10.555
<b>Federal Award Number / Year</b>	2015
<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Pass-Through Agency</b>	Ohio Department of Education

**Material Weakness – Eligibility**

The School District utilized the 'Application for Free and Reduced Price School Meals' that included a "School Use Only" box to determine the Annual Income Conversion, Eligibility, Determining Officials Signature, Confirming Officials Signature, Follow-up Officials Signature and Verification (if applicable).

The School District only partially completed the "School Use Only" box and no signatures or initials were included on the applications tested to indicate who completed the income eligibility determination. Per review of the Ohio Department of Education website, the sample application provided by USDA does not include the "School Use Only" box. Since the School District has elected to use a different application, it appears that this would represent a School District internal control procedure that was not fully implemented.

The School District should review their control procedures over the Free and Reduced Lunch Applications and make the necessary changes to ensure that adequate control procedures are implemented to ensure eligibility determinations are properly performed.

**Officials' Response:** Refer to the Corrective Action Plan at the end of this report.

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A-133 § .315(c)  
JUNE 30, 2015**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2015-001	The School District has updated the software utilized in the School District's cafeterias, effective FY16. The updated system determines students eligibility from information entered from the application.	All Free & Reduced Lunch Applications going forward.	Linda Jones, Food Service Supervisor
2015-002	The School District has updated the software utilized in the School District's cafeterias, effective FY16. The updated system determines students eligibility from information entered from the application.	All Free & Reduced Lunch Applications going forward.	Linda Jones, Food Service Supervisor



# Dave Yost • Auditor of State

**EAST MUSKINGUM LOCAL SCHOOL DISTRICT**

**MUSKINGUM COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 31, 2016**