



Rea & associates *a brighter way*

# East Guernsey Local School District Guernsey County, Ohio

## *Audited Financial Statements*

For the Fiscal Year Ended  
June 30, 2016





# Dave Yost • Auditor of State

Board of Education  
East Guernsey Local School District  
237 Beymer Road  
P.O. Box 128  
Old Washington, Ohio 43768

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

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

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

Dave Yost  
Auditor of State

May 2, 2017

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

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**Guernsey County, Ohio**

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January 31, 2017

The Board of Education  
East Guernsey Local School District  
Guernsey County, Ohio  
237 Beymer Road, P.O. Box 128  
Old Washington, OH 43768

## **Independent Auditor's Report**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Guernsey Local School District, Guernsey County, Ohio (the School District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis, Schedule of the School District's Proportionate Share of the Net Pension Liability, and Schedule of School District Contributions* on pages 5-13, 61, and 62-63, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2017 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

*Kea & Associates, Inc.*

New Philadelphia, Ohio

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

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

***Financial Highlights***

Key financial highlights for 2016 are as follows:

- Net position increased \$825,067, which represents a 6 percent increase from 2015.
- Capital assets decreased \$774,622 during fiscal year 2016.
- During the fiscal year, outstanding debt decreased from \$1,915,062 to \$1,587,590 due to principal payments made by the School District.

***Using this Annual Report***

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

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

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

*Statement of Net Position and the Statement of Activities*

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

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

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

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

***Fund Financial Statements***

The major funds financial statements begin on page 16. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the permanent improvement fund.

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

***Proprietary Fund*** The School District maintains one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the School District's various functions. The School District uses an internal service fund to account for its health insurance benefits. Because this service predominately benefits governmental functions, it has been included within the governmental activities in the government-wide financial statements. The proprietary fund financial statements begin on page 21.

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

The School District is the trustee, or fiduciary, for some of its scholarship programs. This activity is presented as a private purpose trust fund. The School District also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in two agency funds. The School District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 24 and 25. These activities are excluded from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.

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**The School District as a Whole**

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

**Table 1**  
**Net Position**

	Governmental Activities	
	2016	2015
<b>Assets</b>		
Current and Other Assets	\$ 15,657,866	\$ 13,077,726
Capital Assets	18,761,512	19,536,134
<i>Total Assets</i>	34,419,378	32,613,860
<b>Deferred Outflows of Resources</b>		
Pension	2,102,335	796,463
<b>Liabilities</b>		
Other Liabilities	1,486,390	1,466,780
Long-Term Liabilities		
Due Within One Year	417,062	429,697
Due in More Than One Year		
Net Pension Liability	12,797,766	10,382,072
Other Amounts	1,723,087	2,005,823
<i>Total Liabilities</i>	16,424,305	14,284,372
<b>Deferred Inflows of Resources</b>		
Property Taxes and Other	4,169,844	2,842,866
Pension	685,533	1,866,121
<i>Total Deferred Inflows of Resources</i>	4,855,377	4,708,987
<b>Net Position</b>		
Net Investment in Capital Assets	17,173,922	17,621,072
Restricted	2,139,517	2,241,332
Unrestricted	(4,071,408)	(5,445,440)
<i>Total Net Position</i>	\$ 15,242,031	\$ 14,416,964

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

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Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the standards required by GASB 68, the net pension liability equals the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

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

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.

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At year end, capital assets represented 55 percent of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. The net investment in capital assets was \$17,173,922 at June 30, 2016. These capital assets are used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the School District's net position, \$2,139,517 represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net position is a deficit of \$4,071,408, which was primarily caused by GASB 68.

Taxes receivable increased \$1,473,131 due to an increase in the tax valuation by the County. The School District also saw a \$1,017,717 increase in pooled cash and cash equivalents that was partially caused by an increase in property tax receipts.

Long-term liabilities increased \$2,120,323, or 17 percent, primarily due to an increase in net pension liability. This was partially offset by a decrease in other amounts due in more than one year of \$282,736 due to principal payments being made. The \$1,326,978 increase in deferred inflows related to property taxes was a direct result of the increase in taxes receivable discussed above. The \$1,305,872 increase in deferred outflows of resources for pension and the \$1,180,588 decrease in deferred inflows of resources from pension were primarily caused by changes related to net pension liability during fiscal year 2016.

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

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

	Governmental Activities	
	2016	2015
<b>Revenues</b>		
<i>Program Revenues:</i>		
Charges for Services	\$ 1,447,261	\$ 1,325,106
Operating Grants	1,782,903	1,856,109
<i>Total Program Revenues</i>	<u>3,230,164</u>	<u>3,181,215</u>
<i>General Revenues:</i>		
Property Taxes	4,515,211	3,329,194
Grants and Entitlements Not Restricted	6,301,818	6,288,249
Other	144,075	121,598
<i>Total General Revenues</i>	<u>10,961,104</u>	<u>9,739,041</u>
<i>Total Revenues</i>	<u>14,191,268</u>	<u>12,920,256</u>
<b>Program Expenses</b>		
Instruction:		
Regular	5,312,421	5,464,386
Special	1,400,801	1,049,116
Vocational	230,613	256,531
Adult/Continuing	0	7,629
Student Intervention Services	230,704	207,107
Other	48,750	0
Support Services:		
Pupils	894,789	981,799
Instructional Staff	470,463	423,085
Board of Education	61,684	49,986
Administration	963,923	924,145
Fiscal	507,080	464,897
Operation and Maintenance of Plant	1,248,844	1,179,392
Pupil Transportation	1,021,936	1,204,005
Central	79,396	72,239
Operation of Non-Instructional Services:		
Food Service Operations	464,958	461,830
Community Services	7,956	0
Extracurricular Activities	358,208	364,524
Debt Service:		
Interest and Fiscal Charges	63,675	71,012
<i>Total Expenses</i>	<u>13,366,201</u>	<u>13,181,683</u>
<i>Increase (Decrease) in Net Position</i>	<u>\$ 825,067</u>	<u>\$ (261,427)</u>

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Property taxes increased \$1,186,017 due to an increase in the tax valuation by the County.

There was a \$351,685 increase in special instruction expenditures. Beginning in fiscal year 2016, the School District outsourced special education services for a few extreme special needs students, resulting in a significant increase in purchased services.

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

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

	Total Cost of Service		Net Cost of Service	
	2016	2015	2016	2015
Instruction:				
Regular	\$ 5,312,421	\$ 5,464,386	\$ 3,650,586	\$ 3,976,600
Special	1,400,801	1,049,116	769,022	222,461
Vocational	230,613	256,531	168,029	206,606
Adult/Continuing	0	7,629	0	7,629
Student Intervention Services	230,704	207,107	75,708	207,107
Other	48,750	0	25,383	0
Support Services:				
Pupils	894,789	981,799	825,402	912,852
Instructional Staff	470,463	423,085	429,361	279,048
Board of Education	61,684	49,986	61,684	49,986
Administration	963,923	924,145	911,724	816,410
Fiscal	507,080	464,897	507,080	464,897
Business	0	0	0	0
Operation and Maintenance of Plant	1,248,844	1,179,392	1,237,572	1,173,535
Pupil Transportation	1,021,936	1,204,005	1,021,861	1,200,058
Central	79,396	72,239	79,396	72,239
Operation of Non-Instructional Services:				
Food Service Operations	464,958	461,830	85,430	89,345
Community Services	7,956	0	7,956	0
Extracurricular Activities	358,208	364,524	216,168	250,683
Debt Service:				
Interest and Fiscal Charges	63,675	71,012	63,675	71,012
<i>Total Expenses</i>	\$ 13,366,201	\$ 13,181,683	\$ 10,136,037	\$ 10,000,468

The dependence upon general revenues for governmental activities is apparent. Nearly 76 percent of governmental activities are supported through taxes and other general revenues; such revenues are 77 percent of total governmental revenues. The community, as a whole, is by far the primary support for the School District students.

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***Governmental Funds***

Information about the School District's major funds starts on page 16. These funds are accounted for using the modified accrual basis of accounting.

The general fund's net change in fund balance for fiscal year 2016 was an increase of \$645,051. This was primarily caused by an increase in property tax revenue due to the increase in tax valuation by the County.

The fund balance of the permanent improvement fund increased by \$475,125, due to the timing of property tax revenue compared to project related expenditures.

***General Fund Budgeting Highlights***

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

During the course of fiscal year 2016, the School District amended its general fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, actual budget basis revenue of \$11,530,889 was higher than the final budget basis revenue by \$618,182. This was mostly due to actual property tax receipts being higher than anticipated.

Final expenditure appropriations of \$15,158,973 were \$3,578,755 higher than the actual expenditures of \$11,580,218, due to an overestimation of appropriations as compared to resources.

Final budget appropriations were \$295,407 higher than original budget appropriations. This variance was caused when the School District increased the appropriations to keep them in line with the additional resources made available from property taxes.

***Capital Assets and Debt Administration***

**Capital Assets**

At the end of fiscal year 2016, the School District had \$18,761,512 invested in capital assets. Table 4 shows fiscal year 2016 balances compared with 2015.

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

	Governmental Activities	
	2016	2015
Land	\$ 161,329	\$ 161,329
Land Improvements	1,581,705	1,632,708
Buildings and Improvements	16,480,964	17,113,822
Furniture and Equipment	150,228	189,250
Vehicles	387,286	439,025
<i>Totals</i>	\$ 18,761,512	\$ 19,536,134

The \$774,622 decrease in capital assets was attributable to current year depreciation exceeding additional purchases. See Note 8 for more information about the capital assets of the School District.

**Debt**

At June 30, 2016, the School District had \$1,587,590 in debt outstanding. See Notes 13 and 14 for additional details. Table 5 summarizes debt outstanding.

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

	Governmental Activities	
	2016	2015
2011 Refunding Bonds	\$ 660,025	\$ 796,695
2012 House Bill 264 Notes	316,800	345,600
2013 Refunding Bonds	565,000	692,000
Lease Obligations	45,765	80,767
<i>Total</i>	\$ 1,587,590	\$ 1,915,062

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

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Matt Reed, Treasurer of East Guernsey Local School District, 237 Beymer Road, Old Washington, Ohio 43768 or email at [matt.reed@eguernsey.k12.oh.us](mailto:matt.reed@eguernsey.k12.oh.us).

**East Guernsey Local School District**  
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*Statement of Net Position*  
*June 30, 2016*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 8,338,339
Cash and Cash Equivalents with Fiscal Agent	1,134,310
Receivables:	
Accounts	54,414
Intergovernmental	236,359
Property Taxes	5,894,444
Nondepreciable Capital Assets	161,329
Depreciable Capital Assets (Net)	18,600,183
<i>Total Assets</i>	34,419,378
 <b>Deferred Outflows of Resources</b>	
Pension	2,102,335
 <b>Liabilities</b>	
Accounts Payable	136,906
Accrued Wages and Benefits	970,873
Intergovernmental Payable	199,820
Accrued Vacation Leave Payable	45,093
Accrued Interest Payable	4,879
Claims Payable	128,819
Long Term Liabilities:	
Due Within One Year	417,062
Due In More Than One Year	
Net Pension Liability (See Note 10)	12,797,766
Other Due In More Than One Year	1,723,087
<i>Total Liabilities</i>	16,424,305
 <b>Deferred Inflows of Resources</b>	
Property Taxes Levied for the Next Year	4,169,844
Pension	685,533
<i>Total Deferred Inflows of Resources</i>	4,855,377
 <b>Net Position</b>	
Net Investment in Capital Assets	17,173,922
Restricted For:	
Capital Outlay	868,053
Debt Service	839,968
Classroom Facilities Maintenance	102,849
Federal Programs	85,392
Other Purposes	243,255
Unrestricted	(4,071,408)
<i>Total Net Position</i>	\$ 15,242,031

See accompanying notes to the basic financial statements.

**East Guernsey Local School District**  
**Guernsey County, Ohio**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$ 5,312,421	\$ 1,193,450	\$ 468,385	\$ (3,650,586)
Special	1,400,801	4,081	627,698	(769,022)
Vocational	230,613	0	62,584	(168,029)
Student Intervention Services	230,704	0	154,996	(75,708)
Other	48,750	0	23,367	(25,383)
Support Services:				
Pupils	894,789	30,713	38,674	(825,402)
Instructional Staff	470,463	61	41,041	(429,361)
Board of Education	61,684	0	0	(61,684)
Administration	963,923	626	51,573	(911,724)
Fiscal	507,080	0	0	(507,080)
Operation and Maintenance of Plant	1,248,844	0	11,272	(1,237,572)
Pupil Transportation	1,021,936	0	75	(1,021,861)
Central	79,396	0	0	(79,396)
Operation of Non-Instructional Services:				
Food Service Operations	464,958	116,502	263,026	(85,430)
Community Services	7,956	0	0	(7,956)
Extracurricular Activities	358,208	101,828	40,212	(216,168)
Debt Service:				
Interest and Fiscal Charges	63,675	0	0	(63,675)
<b>Total</b>	<b>\$ 13,366,201</b>	<b>\$ 1,447,261</b>	<b>\$ 1,782,903</b>	<b>(10,136,037)</b>

**General Revenues**

Property Taxes Levied for:	
General Purposes	3,745,934
Debt Service	64,813
Capital Outlay	669,028
Classroom Facilities Maintenance	35,436
Grants and Entitlements Not Restricted to Specific Programs	6,301,818
Oil and Gas Lease	60,000
Investment Earnings	20,544
Miscellaneous	63,531
<b>Total General Revenues</b>	<b>10,961,104</b>
<i>Change in Net Position</i>	825,067
<i>Net Position Beginning of Year</i>	14,416,964
<i>Net Position End of Year</i>	<b>\$ 15,242,031</b>

See accompanying notes to the basic financial statements.

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

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 4,916,976	\$ 1,402,550	\$ 2,018,813	\$ 8,338,339
Receivables:				
Accounts	54,414	0	0	54,414
Interfund	41,080	0	0	41,080
Intergovernmental	6,056	0	230,303	236,359
Property Taxes	4,899,818	797,693	196,933	5,894,444
<i>Total Assets</i>	<u>\$ 9,918,344</u>	<u>\$ 2,200,243</u>	<u>\$ 2,446,049</u>	<u>\$ 14,564,636</u>
<b>Liabilities</b>				
Accounts Payable	\$ 115,110	\$ 2,775	\$ 19,021	\$ 136,906
Accrued Wages and Benefits	865,005	0	105,868	970,873
Intergovernmental Payable	179,029	0	20,791	199,820
Interfund Payable	0	0	41,080	41,080
<i>Total Liabilities</i>	<u>1,159,144</u>	<u>2,775</u>	<u>186,760</u>	<u>1,348,679</u>
<b>Deferred Inflows of Resources</b>				
Property Taxes Levied for the Next Year	3,460,414	562,218	147,212	4,169,844
Unavailable Revenue	534,305	87,943	124,162	746,410
<i>Total Deferred Inflows of Resources</i>	<u>3,994,719</u>	<u>650,161</u>	<u>271,374</u>	<u>4,916,254</u>
<b>Fund Balances</b>				
Restricted	0	0	2,039,888	2,039,888
Committed	0	1,547,307	0	1,547,307
Assigned	4,764,481	0	0	4,764,481
Unassigned	0	0	(51,973)	(51,973)
<i>Total Fund Balances</i>	<u>4,764,481</u>	<u>1,547,307</u>	<u>1,987,915</u>	<u>8,299,703</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 9,918,344</u>	<u>\$ 2,200,243</u>	<u>\$ 2,446,049</u>	<u>\$ 14,564,636</u>

See accompanying notes to the basic financial statements.

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

<b>Total Governmental Fund Balances</b>		\$ 8,299,703
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		18,761,512
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Intergovernmental	\$ 105,970	
Property Taxes	<u>640,440</u>	746,410
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		1,005,491
In the statement of activities, interest is accrued on outstanding bonds, whereas in the governmental funds, an interest expenditure is not reported.		(4,879)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds.		
Deferred Outflows - Pension	2,102,335	
Deferred Inflows - Pension	(685,533)	
Net Pension Liability	<u>(12,797,766)</u>	(11,380,964)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	(1,215,000)	
Notes Payable	(316,800)	
Bond Premium	(10,025)	
Capital Lease Payable	(45,765)	
Vacations Payable	(45,093)	
Compensated Absences	<u>(552,559)</u>	<u>(2,185,242)</u>
<i>Net Position of Governmental Activities</i>		<u><u>\$ 15,242,031</u></u>

See accompanying notes to the basic financial statements.

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

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property and Other Local Taxes	\$ 3,730,881	\$ 609,589	\$ 137,894	\$ 4,478,364
Intergovernmental	6,717,809	62,764	1,144,842	7,925,415
Investment Income	10,055	0	3,186	13,241
Tuition and Fees	1,162,460	0	0	1,162,460
Extracurricular Activities	56,104	0	77,124	133,228
Rentals	34,752	0	0	34,752
Oil and Gas Lease	60,000	0	0	60,000
Charges for Services	320	0	116,502	116,822
Contributions and Donations	920	0	187,906	188,826
Miscellaneous	58,601	0	3,830	62,431
<i>Total Revenues</i>	<u>11,831,902</u>	<u>672,353</u>	<u>1,671,284</u>	<u>14,175,539</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	4,675,325	27,529	322,427	5,025,281
Special	1,110,647	0	197,440	1,308,087
Vocational	216,860	0	2,663	219,523
Student Intervention Services	61,947	0	173,321	235,268
Other	22,777	0	26,130	48,907
Support Services:				
Pupils	746,065	0	122,441	868,506
Instructional Staff	348,773	5,600	49,857	404,230
Board of Education	61,725	0	0	61,725
Administration	983,663	0	1,556	985,219
Fiscal	492,574	15,692	4,340	512,606
Operation and Maintenance of Plant	1,070,369	37,791	76,734	1,184,894
Pupil Transportation	962,619	42,556	290	1,005,465
Central	81,099	0	0	81,099
Extracurricular Activities	213,046	0	87,511	300,557
Operation of Non-Instructional Services:				
Food Service Operations	0	0	446,627	446,627
Community Services	0	0	7,956	7,956
Capital Outlay	0	68,060	0	68,060
Debt Service:				
Principal Retirement	63,802	0	262,000	325,802
Interest and Fiscal Charges	14,183	0	51,903	66,086
<i>Total Expenditures</i>	<u>11,125,474</u>	<u>197,228</u>	<u>1,833,196</u>	<u>13,155,898</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>706,428</u>	<u>475,125</u>	<u>(161,912)</u>	<u>1,019,641</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Assets	100	0	0	100
Insurance Recoveries	1,000	0	0	1,000
Transfers In	530	0	63,007	63,537
Transfers Out	(63,007)	0	(530)	(63,537)
<i>Total Other Financing Sources (Uses)</i>	<u>(61,377)</u>	<u>0</u>	<u>62,477</u>	<u>1,100</u>
<i>Net Change in Fund Balance</i>	645,051	475,125	(99,435)	1,020,741
<i>Fund Balances Beginning of Year</i>	<u>4,119,430</u>	<u>1,072,182</u>	<u>2,087,350</u>	<u>7,278,962</u>
<i>Fund Balances End of Year</i>	<u>\$ 4,764,481</u>	<u>\$ 1,547,307</u>	<u>\$ 1,987,915</u>	<u>\$ 8,299,703</u>

See accompanying notes to the basic financial statements.

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

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	1,020,741
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital Asset Additions	\$ 42,556	
Current Year Depreciation	<u>(817,178)</u>	(774,622)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property Taxes	1,411	
Intergovernmental	<u>5,916</u>	7,327
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
		325,802
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		775,146
Except for amount reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(704,380)
In the statement of activities, interest is accrued on outstanding bonds, and bond premium and gain/loss on refunding are amortized over the term of the bonds, whereas in governmental funds, an interest expenditure is reported when bonds are issued.		
Accrued Interest Payable	741	
Amortization of Premium on Bonds	<u>1,670</u>	2,411
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		214,919
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.		
Compensated Absences	(32,101)	
Vacations Payable	<u>(10,176)</u>	<u>(42,277)</u>
<i>Change in Net Position of Governmental Activities</i>	<b>\$</b>	<b><u>825,067</u></b>

See accompanying notes to the basic financial statements.

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

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
<b>Revenues</b>				
Property and Other Local Taxes	\$ 3,406,407	\$ 3,152,982	\$ 3,590,294	\$ 437,312
Intergovernmental	6,408,424	6,640,900	6,714,856	73,956
Investment Income	8,177	6,500	8,618	2,118
Tuition and Fees	1,085,858	1,020,575	1,144,476	123,901
Extracurricular Activities	204	0	215	215
Rentals	38,629	39,400	34,714	(4,686)
Oil and Gas Lease	0	6,000	6,000	0
Charges for Services	304	300	320	20
Contributions and Donations	66	30,000	70	(29,930)
Miscellaneous	29,722	16,050	31,326	15,276
<i>Total Revenues</i>	<u>10,977,791</u>	<u>10,912,707</u>	<u>11,530,889</u>	<u>618,182</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	6,167,664	6,290,244	4,805,233	1,485,011
Special	1,424,335	1,452,644	1,109,701	342,943
Vocational	319,232	325,577	248,714	76,863
Student Intervention Services	84,418	86,096	65,770	20,326
Support Services:				
Pupils	981,897	1,001,412	764,997	236,415
Instructional Staff	471,475	480,846	367,327	113,519
Board of Education	148,783	151,740	115,917	35,823
Administration	1,332,763	1,359,251	1,038,357	320,894
Fiscal	681,143	694,680	530,679	164,001
Business	6,418	6,545	5,000	1,545
Operation and Maintenance of Plant	1,556,742	1,587,682	1,212,859	374,823
Pupil Transportation	1,308,467	1,334,472	1,019,428	315,044
Central	112,240	114,470	87,446	27,024
Extracurricular Activities	216,148	220,444	168,401	52,043
Debt Service:				
Principal Retirement	36,966	37,700	28,800	8,900
Interest and Fiscal Charges	14,875	15,170	11,589	3,581
<i>Total Expenditures</i>	<u>14,863,566</u>	<u>15,158,973</u>	<u>11,580,218</u>	<u>3,578,755</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(3,885,775)</u>	<u>(4,246,266)</u>	<u>(49,329)</u>	<u>4,196,937</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Capital Assets	95	2,000	100	(1,900)
Refund of Prior Year Expenditures	31,674	91,500	33,384	(58,116)
Insurance Recoveries	949	0	1,000	1,000
Advances In	88,989	93,793	93,793	0
Transfers In	503	0	530	530
Advances Out	(52,727)	(53,775)	(41,080)	12,695
Transfers Out	(80,871)	(82,479)	(63,007)	19,472
<i>Total Other Financing Sources (Uses)</i>	<u>(11,388)</u>	<u>51,039</u>	<u>24,720</u>	<u>(26,319)</u>
<i>Net Change in Fund Balance</i>	(3,897,163)	(4,195,227)	(24,609)	4,170,618
<i>Fund Balance Beginning of Year</i>	3,761,282	3,761,282	3,761,282	0
Prior Year Encumbrances Appropriated	433,987	433,987	433,987	0
<i>Fund Balance End of Year</i>	<u>\$ 298,106</u>	<u>\$ 42</u>	<u>\$ 4,170,660</u>	<u>\$ 4,170,618</u>

See accompanying notes to the basic financial statements.

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

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	Governmental Activities - Internal Service Fund
<b>Assets</b>	
<i>Current Assets</i>	
Cash and Cash Equivalents with Fiscal Agent	\$ 1,134,310
<b>Liabilities</b>	
<i>Current Liabilities</i>	
Claims Payable	128,819
<b>Net Position</b>	
Unrestricted	\$ 1,005,491

See accompanying notes to the basic financial statements.

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

	Governmental Activities - Internal Service Fund
<b>Operating Revenues</b>	
Charges for Services	\$ 2,446,688
Other	288,607
<i>Total Operating Revenues</i>	2,735,295
<b>Operating Expenses</b>	
Purchased Services	135,548
Claims	2,392,130
<i>Total Operating Expenses</i>	2,527,678
<i>Operating Income</i>	207,617
<b>Non-Operating Revenues</b>	
Interest	7,302
<i>Change in Net Position</i>	214,919
<i>Net Position Beginning of Year</i>	790,572
<i>Net Position End of Year</i>	\$ 1,005,491

See accompanying notes to the basic financial statements.

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

	<u>Governmental Activities - Internal Service Fund</u>
<b>Cash Flows From Operating Activities</b>	
Cash Received from Customers	\$ 2,446,688
Other Cash Receipts	288,607
Cash Paid for Goods and Services	(135,548)
Cash Paid for Claims	(2,549,629)
<i>Net Cash Provided By Operating Activities</i>	<u>50,118</u>
 <b>Cash Flows From Investing Activities</b>	
Interest on Investments	<u>7,302</u>
 <i>Net Increase in Cash and Cash Equivalents</i>	57,420
 <i>Cash and Cash Equivalents, Beginning of Year</i>	<u>1,076,890</u>
 <i>Cash and Cash Equivalents, End of Year</i>	<u>\$ 1,134,310</u>
 <b>Reconciliation of Operating Loss to Net Cash Provided By Operating Activities</b>	
Operating Income	\$ 207,617
Adjustment:	
(Decrease) in Liabilities:	
Claims Payable	(157,499)
<i>Net Cash Provided By Operating Activities</i>	<u>\$ 50,118</u>

See accompanying notes to the basic financial statements.

**East Guernsey Local School District**  
**Guernsey County, Ohio**  
*Statement of Fiduciary Net Position*  
*Fiduciary Funds*  
*June 30, 2016*

	Private Purpose Trust	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$ 8,592	\$ 33,393
Investments in Segregated Accounts	60,591	0
<i>Total Assets</i>	69,183	\$ 33,393
<b>Liabilities</b>		
Accounts Payable	0	\$ 532
Undistributed Monies	0	93
Due to Students	0	\$ 32,768
<i>Total Liabilities</i>	0	\$ 33,393
<b>Net Position</b>		
Held in Trust for Scholarships	\$ 69,183	

See accompanying notes to the basic financial statements.

**East Guernsey Local School District**  
**Guernsey County, Ohio**  
*Statement of Changes in Fiduciary Net Position*  
*Private Purpose Trust Fund*  
*For the Fiscal Year Ended June 30, 2016*

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	<u>Private Purpose Trust</u>
<b>Additions</b>	
Gifts and Contributions	\$ 1,075
Investment Earnings	<u>282</u>
<i>Total Additions</i>	<u>1,357</u>
<b>Deductions</b>	
Payments in Accordance with Trust Agreements	<u>750</u>
<i>Change in Net Position</i>	607
<i>Net Position Beginning of Year</i>	<u>68,576</u>
<i>Net Position End of Year</i>	<u><u>\$ 69,183</u></u>

See accompanying notes to the basic financial statements.

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

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**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

The East Guernsey Local School District (the “School District”) was formed in 1976 with the consolidation of Zane Trace Local Schools and Madison Consolidated Local Schools. The School District is located in southeastern Ohio and encompasses the eastern 45 percent of Guernsey County.

The East Guernsey Local School District operates under a locally elected five member board form of government and provides educational services as authorized and mandated by state and federal agencies. The School Board controls the School District’s two instructional/support facilities, which provide services to approximately 1,195 students and other community members. The School District’s facilities are comprised of the Buckeye Trail Elementary/Middle School and the Buckeye Trail High School at the district educational campus; the Baker Activity Complex athletic fields and track; and the Board of Education and district administrative office.

*Reporting Entity:*

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization’s governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally 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.

No separate governmental units meet the criteria for inclusion as a component unit. The following activity is included within the reporting entity:

The School District participates in the Mid East Career and Technology Center, the Ohio Mid-Eastern Regional Educational Service Agency, the Metropolitan Educational Council, and the Educational Regional Service System Region 12, which are defined as jointly governed organizations. The School District also participates in three public entity pools, the Ohio School Boards Association Workers’ Compensation Group Rating Plan, the Ohio School Plan insurance purchasing pool, and the Jefferson Health Plan, a risk sharing, claims servicing and insurance purchasing pool. These organizations are presented in Notes 15 and 16 to the basic financial statements.

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

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

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

**A. Basis of Presentation**

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

**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 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 activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

The statement of net position presents the financial condition of the governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues 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 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.

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**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:

**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 or transferred according to the general laws of Ohio.

**Permanent Improvement Fund** The permanent improvement fund accounts for financial resources to be used for the acquisitions, construction, or improvement of major capital facilities.

The other governmental funds of the School District account for grants and other resources whose uses are 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 following is the School District's only proprietary fund:

**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 self-insurance program for employee medical, prescription drug, vision 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. The School District's fiduciary funds include private-purpose trust and agency funds. Private-purpose 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 has a private purpose trust which accounts for various college scholarships for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's agency funds account for student activities and assets held by the School District as an agent for outside 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 the total net position.

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

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

The private purpose trust fund is reported using the economic resources measurement focus and is excluded from the governmental activities. All assets and liabilities associated with the operation of this fund are included on the statement of fiduciary net position. The statement of changes in fiduciary net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. Agency funds do not report a measurement focus as they do not report operations.

***D. Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. 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 sixty days of fiscal year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied (see Note 5). Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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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, sales, grants, student fees and reimbursements.

***Deferred Inflows of Resources and Deferred Outflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 10.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the School District, deferred inflows of resources include property taxes, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue may include delinquent property taxes, intergovernmental grants, and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 10).

***Expenses/Expenditures*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

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

To improve cash management, cash received by the 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."

During fiscal year 2016, investments were limited to nonnegotiable certificates of deposit, STAR Ohio and STAR Plus. Investments are reported at fair value, except for nonnegotiable certificates of deposit, which are reported at cost. Fair value is based on quoted market price or current share price.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for at June 30, 2016.

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The School District also invests in STAR Plus, a federally insured cash account powered by the Federally Insured Cash Account (FICA) program. STAR Plus enables political subdivisions to generate a competitive yield on cash deposits in a network of carefully-selected FDIC-insured banks via a single, convenient account. STAR Plus offers attractive yields with no market or credit risk, weekly liquidity and penalty free withdrawals. All deposits with STAR Plus have full FDIC insurance, with no term commitment on deposits.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2016 amounted to \$10,055 which includes \$3,602 assigned from other School District funds.

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

***F. Capital Assets***

The only capital assets of the School District are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The School District was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated fixed assets are recorded 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 are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 - 50 Years
Buildings and Improvements	5 - 50 Years
Furniture and Equipment	5 - 20 Years
Vehicles	6 - 15 Years

***G. 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 on the statement of net position.

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***H. Compensated Absences***

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

Sick leave benefits are accrued as a liability using the termination method. The School District records a liability for accumulated unused sick leave for employees to the extent it is probable that the benefits will result in termination payments based upon an estimate of past experience of making termination payments for sick leave.

The sick leave benefit liability is reported on the government-wide financial statements. On the government fund financial statements, sick leave benefits are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid.

***I. 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 net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, notes and capital leases are recognized as a liability on the governmental fund financial statements when due.

***J. Pensions***

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

***K. Bond Discounts and Premiums***

Bond premiums and bond discounts are amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

On the governmental fund financial statements, governmental fund types recognize issuance costs, bond premiums, and bond discounts in the current period. The face amount of the debt issue is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses.

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***L. Internal Activity***

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

Internal allocations of overhead expenses from one function to another or within the same function 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.

***M. 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 legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.

***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 or enabling legislation (School District resolutions).

Enabling legislation authorizes the School District to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the School District can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specific by the legislation.

***Committed*** The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the School District Board of Education, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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

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

The School District applies restricted resources first when expenditures are incurred for 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 amounts in any of the unrestricted fund balance classifications could be used.

***N. Net Position***

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

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

***O. 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 determination are reported as non-operating.

***P. Extraordinary and Special Items***

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

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***Q. Estimates***

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

***R. Budgetary Data***

All funds, other than agency funds, are legally required to be appropriated. The major documents prepared are the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. 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 for all funds of the School District. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The Treasurer is given the authority to further allocate fund appropriations within all funds. Advances in/out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

In accordance with the Ohio Revised Code, the County Budget Commission has provided for the apportionment of undivided local government funds under an alternative method that has been approved by school districts in the County. Under this alternative method, the County Budget Commission has waived the requirement for the School District to adopt a tax budget; the Commission does require that the School District provide fiscal reports and projections on an annual basis.

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 statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate in effect when 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 fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

***S. Implementation of New Accounting Principles***

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

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

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

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

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

**NOTE 3 - 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 Balances - Budget (Non GAAP Basis) and Actual - general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

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

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**Net Change in Fund Balance**

GAAP Basis	\$	645,051
Net Adjustment for Revenue Accruals		(96,641)
Net Adjustment for Expenditure Accruals		(50,430)
Funds Budgeted Elsewhere **		15,420
Adjustment for Encumbrances		<u>(538,009)</u>
Budget Basis	<u>\$</u>	<u>(24,609)</u>

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

**NOTE 4 – DEPOSITS AND INVESTMENTS**

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

Active monies are public monies determined to be 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 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 that 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 obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;

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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);
7. The State Treasurer's investment pool (STAR Ohio and STAR Plus);
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.

At June 30, 2016, the School District's internal service fund had a balance of \$1,134,310 with the Jefferson Health Plan, a public entity, risk sharing, claims servicing and insurance purchasing pool (see Note 16). The money is held by the claims servicing pool in a pooled account, which is representative of numerous entities and therefore cannot be included in the risk disclosures reported by the School District. The classification of cash and cash equivalents for the Jefferson Health Plan as a whole may be obtained from the Plan's fiscal agent, the Jefferson County Educational Service Center. To obtain financial information, write to the Jefferson Health Plan, Treasurer, 2023 Sunset Blvd., Steubenville, Ohio 43952.

Deposits

At fiscal year-end, the carrying amount of the School District's deposits was \$7,288,712 which includes \$150 petty cash. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of June 30, 2016, \$6,319,052 of the School District's bank balance of \$7,335,834 was exposed to custodial risk as discussed below, while \$1,016,782 was covered by the Federal Deposit Insurance Corporation (FDIC), which includes \$706,191 held in a STAR Plus account.

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 pledged 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**

Investments are reported at fair value. As of June 30, 2016 the School District had the following investment:

S & P Global Rating	Entity	Measurement Amount	Investment Maturities in months (0-6)	Percentage of Total Investment
AAAm	STAR Ohio	\$ 1,152,203	\$ 1,152,203	100.00%

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**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.

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

**Credit Risk** The School District's investments at June 30, 2016 are rated as shown above by Standard & Poor's. The School District has no investment policy that would further limit its investment choices.

**Concentration of Credit Risk.** The School District places no limit on the amount that may be invested in any one issuer. The table above includes the percentage to total of each investment type held by the School District at June 30, 2016.

#### **NOTE 5 - PROPERTY TAXES**

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

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The School District receives property taxes from Guernsey County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 operations. The amount available as an advance at June 30, 2016 in the general, debt service (non-major fund), permanent improvement and classroom facilities maintenance funds (non-major fund) was \$905,099, \$17,882, \$147,532 and \$13,647, respectively. The amount available for advance at June 30, 2015, in the general, debt service (non-major fund), permanent improvement and classroom facilities maintenance funds (non-major fund) was \$764,512, \$35,578, \$124,010 and \$13,318, respectively. The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

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

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

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

	2015 Second Half Collections		2016 First Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$ 135,225,790	92%	\$ 193,936,730	93%
Public Utility Personal Property	11,893,820	8%	13,861,720	7%
<b>Total</b>	<b>\$ 147,119,610</b>	<b>100%</b>	<b>\$ 207,798,450</b>	<b>100%</b>
Full Tax Rate per \$1,000 of assessed valuation	\$ 28.10		\$ 27.50	

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2016, consisted of accounts, property taxes, intergovernmental and interfund. All receivables, except property taxes, 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. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

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**NOTE 7 – INTERFUND ACTIVITY**

**A. Interfund Balances**

Interfund balances at June 30, 2016, consist of the following interfund receivables and payables:

	Interfund Receivable	Interfund Payable
General	\$ 41,080	\$ 0
Other Governmental:	0	
Part B IDEA	0	6,006
Title I	0	29,872
Title II-A	0	1,944
Title VI-B	0	3,258
	\$ 41,080	\$ 41,080

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30, 2016. The outstanding advances are expected to be repaid once the anticipated revenues are received.

**B. Interfund Transfers**

During fiscal year 2016, the general fund transferred \$63,007 to the food service fund to provide additional resources for current operations. The local grants fund transferred \$530 to the general fund. This transfer was a residual equity transfer to close out the fund.

**NOTE 8 - CAPITAL ASSETS**

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

	Balance 06/30/2015	Additions	Reductions	Balance 6/30/2016
<b>Governmental Activities</b>				
<i>Capital Assets, not Being Depreciated</i>				
Land	\$ 161,329	\$ 0	\$ 0	\$ 161,329
<i>Capital Assets, Being Depreciated</i>				
Land Improvements	2,185,347	0	0	2,185,347
Buildings and Improvements	26,095,534	0	0	26,095,534
Furniture and Equipment	500,753	0	0	500,753
Vehicles	1,709,508	42,556	0	1,752,064
<i>Total Capital Assets, Being Depreciated</i>	30,491,142	42,556	0	30,533,698
Less: Accumulated Depreciation				
Land Improvements	(552,639)	(51,003)	0	(603,642)
Buildings and Improvements	(8,981,712)	(632,858)	0	(9,614,570)
Furniture and Equipment	(311,503)	(39,022)	0	(350,525)
Vehicles	(1,270,483)	(94,295)	0	(1,364,778)
<i>Total Accumulated Depreciation</i>	(11,116,337)	(817,178) *	0	(11,933,515)
<i>Total Capital Assets Being Depreciated, Net</i>	19,374,805	(774,622)	0	18,600,183
<i>Governmental Activities Capital Assets, Net</i>	\$ 19,536,134	\$ (774,622)	\$ 0	\$ 18,761,512

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

Instruction:	
Regular	\$ 410,951
Special	101,939
Vocational	15,532
Support Services:	
Pupil	46,596
Instructional Staff	32,761
Administration	21,322
Fiscal	2,081
Operation and Maintenance of Plant	10,633
Pupil Transportation	92,197
Operation of Non-Instructional Services	22,618
Extracurricular Activities	60,548
<i>Total Depreciation</i>	\$ 817,178

**NOTE 9 - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. During fiscal year 2016, the School District contracted with the Ohio School Plan for property insurance and boiler and machinery coverage. The policies include a \$1,000 deductible for property losses and crimes. Professional and general liability is also protected by the Ohio School Plan with a \$2,000,000 single occurrence limit and a \$5,000,000 general aggregate limit, and no deductible. Violence coverage is provided by the Ohio School Plan with an aggregate limit of \$500,000. Vehicles are covered by the Ohio School Plan Educational Automobile Insurance plan, with a \$1,000 deductible for comprehensive and collision for school buses, and a \$250 deductible for comprehensive and a \$500 deductible for collision for non-bus vehicles. Automobile liability has a \$2,000,000 combined single limit of liability. 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 year.

For fiscal year 2016, the School District participated in the Ohio School Boards Association Workers' Compensation Group rating Program (the Plan), an insurance purchasing pool (see Note 16). The plan is intended to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its rate. Total savings is then calculated and each participant's individual performance is compared to the overall savings of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. The firm of Comp Management Inc provides administrative, cost control and actuarial services to the Plan. Each year, the School District pays an enrollment fee to the Plan to cover the costs of administering the program.

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Health and dental coverages are provided on a self-insured basis through the Jefferson Health Plan. A third party administrator, Self-Funded Plans, Inc, reviews and pays the claims. For fiscal year 2016, the School District paid monthly premiums of \$1,849 for family coverage (full rate \$2,078) and \$806 for individual coverage (full rate \$906). Monthly premiums for dental coverage were \$71 for family and \$28 for single coverage, paid in full by the Board. Usually, premiums are charged to the same fund(s) that pay the employees' salaries. However, if state and/or federal program grant funding is not sufficient to cover those costs, the general fund will pay the difference, or the full amount if necessary.

The claims liability of \$128,819 reported in the internal service fund at June 30, 2016 is based on information 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.

Changes in claims activity for the past two fiscal years are as follows:

		Balance at Beginning of Year	Claims	Payments		Balance at End of Year
2015	\$	204,882	\$ 1,793,416	\$ 1,711,980	\$	286,318
2016	\$	286,318	\$ 2,392,130	\$ 2,549,629	\$	128,819

**NOTE 10 – DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

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

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

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

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

Plan Description – 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.

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Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. SERS did not allocate any employer contributions to the Health Care Fund for fiscal year 2016.

The School District's contractually required contribution to SERS was \$199,723 for fiscal year 2016. Of this amount, \$53,683 is reported as an intergovernmental payable.

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

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

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

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$575,423 for fiscal year 2016. Of this amount, \$104,340 is reported as an intergovernmental payable.

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

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

	STRS	SERS	Total
Proportionate Share of the Net Pension Liability	\$ 9,889,585	\$ 2,908,181	\$ 12,797,766
Proportion of the Net Pension Liability	0.03578376%	0.05096620%	
Pension Expense	\$ 492,819	\$ 211,561	\$ 704,380

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

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ 445,590	\$ 45,719	\$ 491,309
Changes in proportion and differences between School District contributions and proportionate share of contributions	683,638	152,242	835,880
School District contributions subsequent to the measurement date	<u>575,423</u>	<u>199,723</u>	<u>775,146</u>
<b>Total Deferred Outflows of Resources</b>	<b><u>\$ 1,704,651</u></b>	<b><u>\$ 397,684</u></b>	<b><u>\$ 2,102,335</u></b>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	<u>\$ 610,369</u>	<u>\$ 75,164</u>	<u>\$ 685,533</u>
<b>Total Deferred Inflows of Resources</b>	<b><u>\$ 610,369</u></b>	<b><u>\$ 75,164</u></b>	<b><u>\$ 685,533</u></b>

\$775,146 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>STRS</u>	<u>SERS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2017	\$ 42,281	\$ 20,338	\$ 62,619
2018	42,281	20,338	62,619
2019	42,279	20,128	62,407
2020	<u>392,018</u>	<u>61,993</u>	<u>454,011</u>
	<u>\$ 518,859</u>	<u>\$ 122,797</u>	<u>\$ 641,656</u>

***Actuarial Assumptions - SERS***

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22.00 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

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

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

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 4,032,602	\$ 2,908,181	\$ 1,961,326

**Actuarial Assumptions - STRS**

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

Inflation	2.75 percent
Projected Salary Increase	2.75 percent at 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2.00 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year, for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date

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

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2015.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$ 13,737,379	\$ 9,889,585	\$ 6,635,701

**Note 11 – POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, SERS did not allocate any employer contributions to the Health Care Fund. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

The School District's contributions for health care (including surcharge) for the fiscal years ended June 30, 2016, 2015, and 2014 were \$25,778, \$36,251 and \$24,737, respectively. For fiscal year 2016, 73 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2015 and 2014.

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

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$33,407, respectively. The full amount has been contributed for fiscal years 2016, 2015 and 2014.

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**NOTE 12 - OTHER EMPLOYEE BENEFITS**

***A. Compensated Absences***

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Employees who work 260 days earn ten to twenty-five days of vacation per year, depending upon length of service and/or Board action. Current policy permits vacation leave to be accumulated up to one year. Accumulated, unused vacation time is paid to eligible employees upon termination of employment. Employees who work less than 260 days do not earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 250 days for all employees. Upon retirement, payment is made for one-fourth of accrued and unused sick leave credit, (or otherwise if individually contracted) if SERS/STRS retirement prerequisites are met.

***B. Other Insurance Benefits***

The School District provides life insurance and accidental death and dismemberment insurance to all regular employees through Metropolitan Life Insurance Company in the amount of \$20,000 per employee, with administrative personnel being provided \$50,000 of coverage. Supplemental life insurance coverage of \$20,000 for certified employees and \$30,000 for classified employees is purchased by some employees via payroll deduction at a cost of \$0.17 per \$1,000 per month. Vision insurance through Vision Service Plan (VSP) is available to employees enrolling in a mandatory steerage preferred provider organization plan. Those premiums were \$21 per month for family coverage, \$9 per month for single coverage and are paid in full by the Board of Education.

**NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE**

In the prior fiscal years, the School District entered into capitalized leases for copying equipment. The lease for copying equipment that was approved in prior fiscal years included an amount for the early retirement of the subsequent capital lease, and the replacement equipment was taken on trade as part of the terms of the new lease agreement. Therefore, capitalized copying equipment is less than the amount of the outstanding capital lease liability. The leases meet the criteria of a capital lease since they transfer benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and 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 financial statements in the amount of \$120,454, which is equal to the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation was \$84,318 as of June 30, 2016, leaving a current book value of \$36,136. A corresponding liability, net of the difference between the book value of the traded assets and the amount received for retirement of the existing lease, was recorded in the government wide statements governmental activities. Total principal payments for fiscal year 2016 were \$35,002.

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Future minimum lease payments through 2018 are as follows:

		Governmental Activities	
Year ending June 30,	2017	Capital Lease	
	2018	\$ 37,596	9,399
Minimum lease payments		46,995	
Less: amount representing interest at the School District's incremental borrowing rate of interest		1,230	
Present value of net minimum lease payments		\$ 45,765	

**NOTE 14 - LONG TERM OBLIGATIONS**

Changes in the School District's long-term obligations during fiscal year 2016 were as follows:

	Outstanding 6/30/2015	Additions	Reductions	Outstanding 6/30/2016	Amounts Due in One Year
<b>Governmental Activities:</b>					
<i>2011 Refunding Bonds</i>					
Serial Bonds, \$1,520,000 @ 2.0% - 4.0%	785,000	0	(135,000)	650,000	140,000
Premium, \$18,375	11,695	0	(1,670)	10,025	0
<i>2013 Refunding Bonds</i>					
Serial Bonds, \$695,000 @ 5.25% - 5.0%	692,000		(127,000)	565,000	131,000
<b>Total Refunding Bonds</b>	1,488,695	0	(263,670)	1,225,025	271,000
<i>2012 Energy Conservation Notes</i>					
Series 2012, \$432,000 @ 3.5%	345,600	0	(28,800)	316,800	28,800
<i>Net Pension Liability</i>					
STRS	7,976,808	1,912,777	0	9,889,585	0
SERS	2,405,264	502,917	0	2,908,181	0
<b>Total Net Pension Liability</b>	10,382,072	2,415,694	0	12,797,766	0
Capital Leases Payable	80,767	0	(35,002)	45,765	36,428
Compensated Absences	520,458	33,065	(964)	552,559	80,834
<b>Total Governmental Activities</b>	\$ 12,817,592	\$ 2,448,759	\$ (328,436)	\$ 14,937,915	\$ 417,062
<b>Long-Term Liabilities</b>	\$ 12,817,592	\$ 2,448,759	\$ (328,436)	\$ 14,937,915	\$ 417,062

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

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*2011 Refunding Bonds* - On April 21, 2011, the School District issued \$1,520,000 in voted general obligation bonds (the 2011 bonds) which included serial and term bonds to refund the 2002 Bonds. The bonds were issued to partially refund outstanding 2002 School Facilities Construction Improvement and Refunding General Obligation Bonds. The bonds were issued for an 11 year period with a final maturity at December 1, 2021. At the date of refunding, \$1,478,478 (including premium and after underwriting fees, and other issuance costs), as well as \$700,000 provided from current School District resources paid from the debt service fund, was deposited in an escrow account to be used to fully call and repay the refunded bonds.

The bonds were issued at a premium of \$18,375, which is reported as an increase to bonds payable. This premium is being amortized to interest expense over the life of the bonds using the straight-line method. The amount amortized in fiscal year 2016 was \$1,670. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$566,176 and an economic gain of \$162,831.

The bonds are being retired from the debt service fund from the proceeds of a bond issue tax levy. The bonds are not subject to redemption prior to stated maturity.

As part of the bond issuance, the School District, pursuant to Section 3317.18, Ohio Revised Code, and Section 3301-8-01, Ohio Administrative Code, participated in the Ohio Credit Enhancement Program, and was assigned a rating of AA from Standard & Poor's for the bond issuance. In the event the School District is unable to make sufficient debt service payments and the payment will not be made by a credit enhancement facility, the department of education will make the sufficient payment.

*2013 Refunding Bonds* - On December 18, 2013 the School District issued \$695,000 in refunded general obligation bonds (the 2013 bonds) which included serial bonds to refund the 2004 Bonds. The bonds were issued to partially refund outstanding 2004 School Facilities and Improvement Bonds. The bonds were issued for a five year period with a final maturity at December 1, 2019. At the date of refunding, \$729,984 (including premium and other issuance costs), was received to pay off old debt. As a result, \$695,000 of the 2004 Bonds are considered to be defeased. The liability of the bonds was removed from the financial statements at the time of the refunding. The advance refunding reduced cash flows required for debt service by \$21,757 over the next five years and resulted in an economic gain of \$21,757. As of June 30, 2016 \$565,000 of the defeased bonds were outstanding. The bonds are being retired from the debt service fund from the proceeds of a bond issue tax levy.

The bonds were issued at a premium of \$52,827 with issuance costs of \$17,843. The premium and issuance costs were recognized at the time of issuance.

Principal and interest requirements to retire the refunding bonds at June 30, 2016 are as follows:

Fiscal Year	Principal	Interest
2017	\$ 271,000	\$ 42,678
2018	174,000	34,356
2019	178,000	27,155
2020	187,000	19,601
2021	200,000	11,950
2022	205,000	4,100
	\$ 1,215,000	\$ 139,840

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*2012 Energy Conservation Notes* - On March 21, 2012, the School District issued \$432,000 in energy conservation notes (the 2012 notes) to pay for the cost of energy conservation capital upgrades. The notes were issued for a 15 year period with a final maturity at December 1, 2026.

The notes are being retired from the general fund from the resulting savings in energy costs. The notes are subject to redemption at the option of the School District, either in whole or in part, in such order as the School District shall determine, on any date 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 notes are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 of the years and in the respective principal amounts below.

Principal and interest requirements to retire the 2012 note at June 30, 2016 are as follows:

Fiscal Year	Principal	Interest
2017	\$ 28,800	\$ 10,584
2018	28,800	9,576
2019	28,800	8,568
2020	28,800	7,560
2021	28,800	6,552
2022-2026	144,000	17,640
2027	28,800	504
	\$ 316,800	\$ 60,984

The School District's overall legal debt margin was \$18,003,326, with an unvoted debt margin of \$207,798 at June 30, 2016.

**NOTE 15 – JOINTLY GOVERNED ORGANIZATIONS**

*Mid East Career and Technology Center* - The Mid East Career and Technology Center (MECTC) 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 twelve participating school district's elected boards, which possesses its own budgeting and taxing authority. During fiscal year 2016, the School District made no contributions to the MECTC. To obtain financial information write to the Mid East Career and Technology Center, Treasurer, at 400 Richards Road, Zanesville, Ohio 45701.

*Ohio Mid-Eastern Regional Educational Service Agency* - The Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) was created as a separate regional council of governments pursuant to State statutes. OME-RESA operates under the direction of a Board comprised of a representative from each participating school district. The Board possesses its own budgeting and taxing authority. OME-RESA provides information technology and internet access to member districts, as well as cooperative purchasing programs. During fiscal year 2016, the total amount paid to OME-RESA from the School District for services provided was \$45,309. The Jefferson County Educational Service Center serves as the fiscal agent and receives funding from the State Department of Education. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

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*Metropolitan Educational Council* - The Metropolitan Educational Council (MEC) is a consortium of school districts and related agencies in Ohio. The organization is composed of over 187 members. The governing board is comprised of either the superintendent or his designated representative from each participating school district in Franklin County and one representative from each county outside of Franklin County. Each year the participating school districts pay a membership fee to MEC to cover the costs of administering the program. The School District's membership payment to MEC for fiscal year 2016 was \$194. Financial information may be obtained from the Metropolitan Educational Council, at 6100 Channingway Blvd., Suite 604, Columbus, Ohio 43232.

*Educational Regional Service System Region 12* - The School District participates in the Educational Regional Service System Region 12 (ERSS), a jointly governed organization consisting of educational entities within Belmont, Carroll, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Monroe, Muskingum, Noble and Tuscarawas counties. The purpose of the ERSS is to provide support services to school districts, community schools, and chartered nonpublic schools within the region by supporting State and school initiatives and efforts to improve school effectiveness and student achievement with a specific reference to the provision of special education and related services. The ERSS is governed by an advisory council, which is the policymaking body for the educational entities within the region, who identifies regional needs and priorities for educational services and develops corresponding policies to coordinate the delivery of services. They are also charged with the responsibility of monitoring the implementation of State and regional initiatives and school improvement efforts.

The Advisory Council is made up of the director of the ERSS, the superintendent of each educational service center within the region, the superintendent of the region's largest and smallest school district, the director and an employee from each education technology center, one representative of a four-year institution of higher education appointed by the Ohio Board of Regents, one representative of a two-year institution of higher education and appointed by the Ohio Association of Community Colleges, three board of education members (one each from a city, exempted village, and local school district within the region), and one business representative. The degree of control exercised by any participating educational entity is limited to its representation on the Advisory Council. Financial information can be obtained from the Muskingum Valley Educational Service Center, 205 N. Seventh Street, Zanesville, Ohio 43701.

**NOTE 16 - PUBLIC ENTITY POOLS**

***A. Insurance Purchasing Pools***

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

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*Ohio School Plan* – The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP’s business is conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims and establishing agreements between OSP and member schools.

***B. Risk Sharing, Claims Servicing and Insurance Purchasing Pool***

*Jefferson Health Plan* - The School District participates in the Jefferson Health Plan (the Plan) self-insurance plan, a risk-sharing, claims servicing, and insurance purchasing pool comprised of eighty-four members, including two insurance consortiums. Each participant appoints a member of the insurance plan’s assembly. The Plan’s business and affairs are conducted by a nine member Board of Directors elected from the assembly. The Plan offers medical, dental and prescription drug coverage to the members on a self-insured basis, as well as the opportunity to participate in the group purchasing of life insurance and vision insurance coverage. The medical coverage plan provides each plan participant the opportunity to choose a self-insurance deductible limit, which can range from \$35,000 to \$150,000 under which the individual member is responsible for all claims through the claims servicing pool.

Plan participants also participate in a shared risk internal pool for individual claims between the self-insurance deductible limit and \$500,000, and all claims between the deductible and the \$500,000 are paid from the internal shared risk pool. The internal pool is not owned by the plan participants. All participants pay a premium rate that is actuarially calculated based on the participants’ actual claims experience which are utilized for the payment of claims within the claims servicing pool up to the self-insurance deductible limit; and for this portion of the plan, all plan participants retain their own risk. All participants pay an additional fee for participation in the internal pool that is based on the claims of the internal pool in aggregate and is not based on individual claims experience. In the event of a deficiency in the internal pool, participants would be charged a higher rate for participation, and in the event of a surplus, the internal pool pays dividends to the participants. For all individual claims exceeding \$500,000, stop loss coverage is purchased, as well as for an annual total plan aggregate claims amount. All plan participants also pay a monthly administrative fee for fiscal services and third party administrative services. The plan also purchases fully insured life insurance for plan participants provided by Met Life, and allows for the purchase of vision insurance through Vision Service Plan.

**NOTE 17 - SET-ASIDE CALCULATIONS**

The School District is required by State statute to annually set aside, in the general fund, an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by 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 fiscal year-end set-aside amounts for capital improvements. Disclosure of this information is required by State statute.

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	Capital Improvements
Set-aside Restricted Balance as of June 30, 2015	\$ 0
Current Year Set-aside Requirement	184,720
Current Year Offsets	(712,041)
Totals	\$ (527,321)
Balance Carried Forward to Fiscal Year 2017	\$ 0
Set-aside Restricted Balance as of June 30, 2016	\$ 0

The School District had offsets that reduced the capital improvements set-aside amount to below zero. This excess may not be carried forward to offset future year set-aside requirements. The School District also had prior year debt proceeds in connection with a school facilities project that may be carried forward to offset future set-aside requirements, if needed.

**NOTE 18 – CONTINGENCIES AND COMMITMENTS**

**A. Grants**

The School District received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2016, if applicable, cannot be determined at this time.

**B. Litigation**

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

**C. Leases**

The Board of Education has entered into two “Paid-Up” Oil and Gas Leases effective February 2, 2012 and continuing through February 8, 2017 with Chesapeake Exploration, L.L.C. In consideration of the execution of the leases, the School District received bonuses of \$339,750 during fiscal year 2012. The School District has a total of 68.9520 acres subject to the lease provisions which call for payments to the lessor, in addition to the bonus, royalties, less all taxes, assessments, and adjustments on production from the leasehold in the amount of 20 percent for oil or gas. The total carrying value of the land leased is \$157,229. As of the date of the financial statements, the value of any potential royalties cannot be determined, and the School District has not received any financial compensation beyond the bonus.

The Board of Education has also entered into a “Paid-Up” Oil and Gas Lease effective January 13, 2016 for a one year term with R.E. Gas Development, L.L.C. In consideration of the execution of the lease, the School District received a bonus of \$60,000 during fiscal year 2016. The School District has a total of 33.164 acres subject to the lease provisions which call for payments to the lessor, in addition to the bonus, royalties, less all taxes, assessments, and adjustments on production from the leasehold in the amount of 20 percent for oil or gas. As of the date of the financial statements, the value of any potential royalties cannot be determined, and the School District has not received any financial compensation beyond the bonus.

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

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***D. School District Funding***

School district Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 or June 30, 2016 Foundation funding for the School District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the School District.

***E. Other Commitments***

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

<u>Fund</u>	<u>Amount</u>
General	\$ 540,923
Permanent Improvement	151,291
Nonmajor Governmental	38,741
	<u>\$ 730,955</u>

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

**NOTE 19 – FUND BALANCE**

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

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

	General	Permanent Improvement Fund	Other Governmental Funds	Total
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Restricted for:				
Debt Service	\$ 0	\$ 0	\$ 833,265	\$ 833,265
Capital Outlay	0	0	868,053	868,053
Facilities Maintenance	0	0	95,315	95,315
Miscellaneous Local Programs	0	0	201,179	201,179
Miscellaneous State Programs	0	0	42,076	42,076
Total Restricted	<u>0</u>	<u>0</u>	<u>2,039,888</u>	<u>2,039,888</u>
Committed for:				
Capital Outlay	<u>0</u>	<u>1,547,307</u>	<u>0</u>	<u>1,547,307</u>
Assigned for:				
Encumbrances:				
Instruction	144,567	0	0	144,567
Support Services	394,867	0	0	394,867
Extracurricular	1,489	0	0	1,489
Subsequent Year Appropriations	<u>4,223,558</u>	<u>0</u>	<u>0</u>	<u>4,223,558</u>
Total Assigned	<u>4,764,481</u>	<u>0</u>	<u>0</u>	<u>4,764,481</u>
Unassigned	0	0	(51,973)	(51,973)
<i>Total Fund Balance (Deficit)</i>	<u><u>\$ 4,764,481</u></u>	<u><u>\$ 1,547,307</u></u>	<u><u>\$ 1,987,915</u></u>	<u><u>\$ 8,299,703</u></u>

***Deficit Fund Balance***

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

*Non-major Special Revenue Funds:*

Food Service	\$ 31,380
IDEA, Part B	10,219
Title I	9,845
Title II-A	514
Miscellaneous Federal Programs	15

The deficits in these funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in the non-major governmental funds and will provide transfers when cash is required, not when accruals occur.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b><i>State Teachers Retirement System (STRS)</i></b>			
School District's Proportion of the Net Pension Liability	0.03578376%	0.03279471%	0.03279471%
School District's Proportionate Share of the Net Pension Liability	\$ 9,889,585	\$ 7,976,808	\$ 9,501,922
School District's Covered-Employee Payroll	\$ 3,556,050	\$ 3,340,669	\$ 3,691,669
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	278.11%	238.78%	257.39%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%
<b><i>School Employees Retirement System (SERS)</i></b>			
School District's Proportion of the Net Pension Liability	0.05096620%	0.04752600%	0.04752600%
School District's Proportionate Share of the Net Pension Liability	\$ 2,908,181	\$ 2,405,264	\$ 2,826,219
School District's Covered-Employee Payroll	\$ 1,527,701	\$ 1,384,322	\$ 1,302,486
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	190.36%	173.75%	216.99%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

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

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b><i>State Teachers Retirement System (STRS)</i></b>				
Contractually Required Contribution	\$ 575,423	\$ 497,847	\$ 434,287	\$ 479,917
Contributions in Relation to the Contractually Required Contribution	<u>(575,423)</u>	<u>(497,847)</u>	<u>(434,287)</u>	<u>(479,917)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's Covered-Employee Payroll	\$ 4,110,164	\$ 3,556,050	\$ 3,340,669	\$ 3,691,669
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%
 <b><i>School Employees Retirement System (SERS)</i></b>				
Contractually Required Contribution	\$ 199,723	\$ 201,351	\$ 191,867	\$ 180,264
Contributions in Relation to the Contractually Required Contribution	<u>(199,723)</u>	<u>(201,351)</u>	<u>(191,867)</u>	<u>(180,264)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
School District's Covered-Employee Payroll	\$ 1,426,593	\$ 1,527,701	\$ 1,384,322	\$ 1,302,486
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%

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

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 518,262	\$ 576,021	\$ 587,972	\$ 587,972	\$ 569,270	\$ 577,342
<u>(518,262)</u>	<u>(576,021)</u>	<u>(587,972)</u>	<u>(587,972)</u>	<u>(569,270)</u>	<u>(577,342)</u>
<u>\$ 0</u>					
\$ 3,986,631	\$ 4,430,931	\$ 4,522,862	\$ 4,522,862	\$ 4,379,000	\$ 4,441,092
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
\$ 140,067	\$ 164,402	\$ 238,522	\$ 139,109	\$ 146,491	n/a
<u>(140,067)</u>	<u>(164,402)</u>	<u>(238,522)</u>	<u>(139,109)</u>	<u>(146,491)</u>	n/a
<u>\$ 0</u>	n/a				
\$ 1,041,390	\$ 1,307,892	\$ 1,761,610	\$ 1,413,709	\$ 1,491,762	n/a
13.45%	12.57%	13.54%	9.84%	9.82%	n/a

January 31, 2017

To the Board of Education  
East Guernsey Local School District  
Guernsey County, Ohio  
237 Beymer Road, P.O. Box 128  
Old Washington, OH 43768

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of East Guernsey Local School District, Guernsey County, Ohio (the "School District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated January 31, 2017.

***Internal Control over Financial Reporting***

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Rea & Associates, Inc.*

New Philadelphia, Ohio

January 31, 2017

To the Board of Education  
East Guernsey Local School District  
Guernsey County, Ohio  
237 Beymer Road, P.O. Box 128  
Old Washington, OH 43768

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

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

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

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

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

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

Management of School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of School District's internal control over compliance.

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

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

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

*Rea & Associates, Inc.*

New Philadelphia, Ohio

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

Federal Grantor/Pass Through Grantor Program Title	Grant Year/ Direct Award No.	CFDA Number	Federal Expenditures	Passed Through to Subrecipients
<b>U.S. DEPARTMENT OF EDUCATION</b>				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies	2015	84.010	\$ 77,440	\$ 0
Title I Grants to Local Educational Agencies	2016	84.010	423,075	0
Total Title I Cluster			500,515	0
Special Education - Grants to States	2015	84.027	52,801	0
Special Education - Grants to States	2016	84.027	155,674	0
Total Special Education - Grants to States			208,475	0
Title II-A - Improving Teacher Quality	2015	84.367	4,604	0
Title II-A - Improving Teacher Quality	2016	84.367	39,072	0
Total Title II-A - Improving Teacher Quality			43,676	0
Rural Education	2015	84.358	719	0
Rural Education	2016	84.358	17,859	0
Total Rural Education			18,578	0
<b>Total U.S. Department of Education</b>			<b>771,244</b>	<b>0</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
<i>Passed Through Ohio Department of Education:</i>				
<i>Child Nutrition Cluster:</i>				
<i>Non-Cash Assistance (Food Distribution):</i>				
National School Lunch Program	2016	10.555	16,752	0
<i>Cash Assistance:</i>				
School Breakfast Program	2016	10.553	74,198	0
National School Lunch Program	2016	10.555	168,002	0
<i>Cash Assistance Subtotal</i>			242,200	0
<i>Total Child Nutrition Cluster</i>			258,952	0
<b>Total U.S. Department of Agriculture</b>			<b>258,952</b>	<b>0</b>
<b>TOTAL FEDERAL ASSISTANCE</b>			<b>\$ 1,030,196</b>	<b>\$ 0</b>

**East Guernsey Local School District**  
**Guernsey County, Ohio**  
*Notes To The Schedule of Expenditures Of Federal Awards*  
*For the Fiscal Year Ended June 30, 2016*

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**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the East Guernsey Local School District (the School District) under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Government.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The Government has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE C - CHILD NUTRITION CLUSTER**

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

**NOTE D – FOOD DONATION PROGRAM**

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

**NOTE E - TRANSFERS BETWEEN PROGRAM YEARS**

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

<u>Program Title</u>	<u>CFDA</u> <u>Number</u>	<u>Amt.</u> <u>Transferred</u>
Title I Grants to Local Educational Agencies	84.010	\$ 252
Rural Education	84.358	\$ 71

**East Guernsey Local School District**  
**Guernsey County, Ohio**  
*Schedule of Findings and Questioned Costs*  
*2 CFR Section 200.515*  
*For the Fiscal Year Ended June 30, 2016*

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

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

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

**East Guernsey Local School District**  
**Guernsey County, Ohio**  
*Schedule of Prior Audit Findings*  
*2 CFR Section 200.515*  
*For the Fiscal Year Ended June 30, 2016*

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain</b>
2015-001	Title I - Significant Deficiency/Non-compliance - Allowable Costs: School District's internal controls over disbursements failed to identify prevent or detect unallowable purchases.	Yes	Fully corrected
2015-002	Title I - Significant Deficiency/Non-compliance - Cash Management: School District did not have adequate internal controls in place to properly monitor expenditures and ensure timely disbursement.	Yes	Fully corrected

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# Dave Yost • Auditor of State

**EAST GUERNSEY LOCAL SCHOOL DISTRICT**

**GUERNSEY 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  
MAY 16, 2017**